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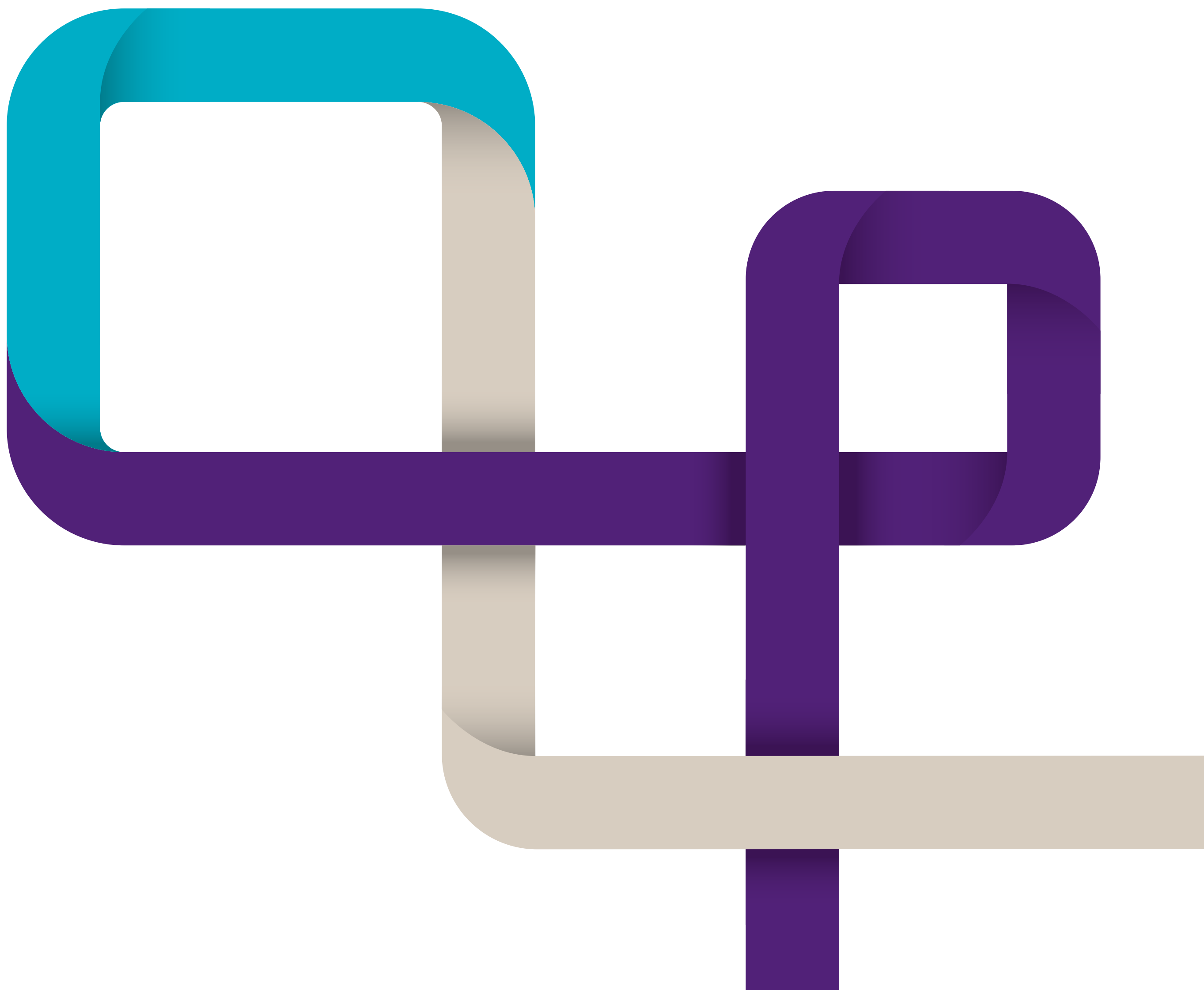
Navigating the changes to International Financial Reporting Standards

A briefing for Chief Financial Officers

December 2017



'This edition includes IFRS 17 – the new Insurance Contracts Standard.'

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This document has been developed as an information resource. It is intended as a guide only and the application of its contents to specific situations will depend on the particular circumstances involved. While every care has been taken in its presentation, personnel who use this document to assist in evaluating compliance with International Financial Reporting Standards should have sufficient training and experience to do so. No person should act specifically on the basis of the material contained herein without considering and taking professional advice. Neither Grant Thornton International Ltd, nor any of its personnel nor any of its member firms or their partners or employees, accept any responsibility for any errors it might contain, whether caused by negligence or otherwise, or any loss, howsoever caused, incurred by any person as a result of utilising or otherwise placing any reliance upon this document.

Introduction

This publication is designed to give Chief Financial Officers a high-level awareness of recent changes to International Financial Reporting Standards that will affect companies' future financial reporting. It covers both new Standards and Interpretations that have been issued and amendments made to existing ones.

What's new in the 2017 edition

The December 2017 edition of the publication has been updated for changes to International Financial Reporting Standards that have been published between 1 December 2016 and 30 November 2017.

The publication now covers 31 March 2017, 30 June 2017, 30 September 2017, 31 December 2017 and 31 March 2018 financial year ends.

Effective dates of new Standards

The table on the next page allows you to identify the changes that will affect you. It lists all the changes covered in the publication, their effective dates, and whether early application is permitted.

How to use the publication

Identifying the changes that will affect you

The table has been colour coded to help entities planning for a specific financial reporting year end, and identifies:

- changes mandatorily effective for the first time
- changes not yet effective
- changes already in effect.

Where a change is not yet mandatorily effective for a particular year end, it may still be possible for an entity to adopt it early as indicated in the table, however this will also be dependent on local legislation.

Where a change has been made but an entity is yet to apply it, certain disclosures are required to be made under IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors'. Disclosures required include the fact that the new or amended Standard or Interpretation is in issue but has not yet been applied, and known or reasonably estimable information relevant to assessing its possible impact on the financial statements in the period of initial application.

Identifying the commercial significance of the changes in the publication

For each change covered in the publication, we have considered its commercial implications. This assessment focuses on two questions:

- how many entities will be affected?
- what will be the impact on affected entities?

A traffic light system indicates our assessment of the answers to these questions.

Other Grant Thornton International publications

Where appropriate, references have been made to other Grant Thornton International Ltd publications that provide more detailed information on the changes discussed in this publication. A list of other recent guides is provided at the back of the publication. These publications can be obtained from your local IFRS contact.

Grant Thornton International Ltd
December 2017

'The publication now covers 31 March 2017, 30 June 2017, 30 September 2017, 31 December 2017 and 31 March 2018 financial year ends.'

Effective dates of new Standards

(based on Standards issued at 30 November 2017)

Standard	Title of Standard or Interpretation	Effective for accounting periods beginning on or after	Early Application?	31 Mar 2017 year end	30 Jun 2017 year end	30 Sep 2017 year end	31 Dec 2017 year end	31 Mar 2018 year end
IAS 16 and IAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to IAS 16 and IAS 38)	1 January 2016	✓	Change effective for the first time	Change effective for the first time	Change effective for the first time	Change already in mandatory effect	Change already in mandatory effect
IAS 16 and IAS 41	Agriculture: Bearer Plants (Amendments to IAS 16 and IAS 41)	1 January 2016	✓					
Various	Annual Improvements to IFRSs 2012–2014 Cycle	1 January 2016	✓					
IAS 27	Equity Method in Separate Financial Statements (Amendments to IAS 27)	1 January 2016	✓					
IFRS 11	Accounting for Acquisitions of Interests in Joint Operations (Amendments to IFRS 11)	1 January 2016	✓					
IFRS 14	Regulatory Deferral Accounts	1 January 2016	✓					
IFRS 10, IFRS 12 and IAS 28	Investment Entities: Applying the Consolidation Exception (Amendments to IFRS 10, IFRS 12 and IAS 28)	1 January 2016	✓					
IAS 1	Disclosure Initiative (Amendments to IAS 1)	1 January 2016	✓					
IAS 12	Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to IAS 12)	1 January 2017	✓	Change not yet effective	Change not yet effective	Change not yet effective	Change effective for the first time	Change effective for the first time
IAS 7	Disclosure Initiative (Amendments to IAS 7)	1 January 2017	✓					
IFRS 12	Annual Improvements to IFRSs 2014–2016 Cycle	1 January 2017	no					
IFRS 1	Annual Improvements to IFRSs 2014–2016 Cycle	1 January 2018	no				Change not yet effective	Change not yet effective
IAS 28	Annual Improvements to IFRSs 2014–2016 Cycle	1 January 2018	✓					
IFRS 15	Revenue from Contracts with Customers[1]	1 January 2018	✓					
IFRS 9 (2014)	Financial Instruments	1 January 2018	✓[2]					
IAS 40	Transfers of Investment Property (Amendments to IAS 40)	1 January 2018	✓					
IFRS 4	Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (Amendments to IFRS 4)	1 January 2018	[3]					
IFRS 2	Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2)	1 January 2018	✓					
IFRIC 22	Foreign Currency Transactions and Advance Consideration	1 January 2018	✓					
IFRS 16	Leases	1 January 2019	✓[4]					
IFRS 9	Prepayment Features with Negative Compensation (Amendments to IFRS 9)	1 January 2019	✓					
IFRIC 23	Uncertainty over Income Tax Treatments	1 January 2019	✓					
IAS 28	Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28)	1 January 2019	✓					
IFRS 17	Insurance Contracts	1 January 2021	✓[5]					
Practice Statement 2	Making Material Judgements	No effective date as non-mandatory guidance						
IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28)	No effective date as deferred indefinitely						

The colour coding gives an indication of when the changes covered in the publication become effective in relation to the specific financial reporting year ends set out in the table.

Key: Change already in mandatory effect; Change effective for the first time; Change not yet effective

Notes

1 The article on IFRS 15 includes 'Clarifications to IFRS 15', amendments made to IFRS 15 that are also effective 1 January 2018.
2 Extensive transition rules apply.
3 Temporary exemption from IFRS 9 is applied for accounting periods on or after 1 January 2018. Overlay approach is applied when entities first apply IFRS 9.
4 Entities that early adopt IFRS 16 must apply IFRS 15 before or on the same date.
5 Entities that early adopt IFRS 17 must apply IFRS 9 and IFRS 15 before or on the same date.

Early application of Standards is also dependant on local legislation.

Effective from 1 January 2016

The Standards discussed on pages four to 14 are effective for accounting periods beginning on or after 1 January 2016.

It may be possible to apply these changes early depending on local legislation and the requirements of the particular change in concern. The Standards are:

- Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to IAS 16 and IAS 38)
- Agriculture: Bearer Plants (Amendments to IAS 16 and IAS 41)
- Annual Improvements to IFRSs 2012-2014 Cycle
- Equity Method in Separate Financial Statements (Amendments to IAS 27)
- Accounting for Acquisitions of Interests in Joint Operations (Amendments to IFRS 11)
- IFRS 14 Regulatory Deferral Accounts
- Investment Entities: Applying the Consolidation Exception (Amendments to IFRS 10, IFRS 12 and IAS 28)
- Disclosure Initiative (Amendments to IAS 1)

Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to IAS 16 and IAS 38)

In May 2014, amendments were made to IAS 16 'Property, Plant and Equipment' and IAS 38 'Intangible Assets' in order to address depreciation and amortisation methods which are based on revenue.

The amendments stem from concerns regarding the use of a revenue-based method for depreciating an asset. By way of background, the two Standards require that a depreciation or amortisation method should reflect the expected pattern of consumption of the future economic benefits of the asset. The amendments result from a request to clarify the meaning of the term 'consumption of the expected future economic benefits of the asset'.

The Amendments to IAS 16

The Amendments to IAS 16 prohibit the use of a revenue-based depreciation method for property, plant and equipment because:

- a depreciation method which is based on revenue allocates the asset's depreciable amount based on revenue generated in an accounting period as a proportion of total expected revenue during the asset's useful life
- revenue reflects a pattern of economic benefits that are generated from operating the business rather than the economic benefits that are being consumed through use of the asset.

The Amendments to IAS 38

The Amendments to IAS 38 present a rebuttable presumption that a revenue-based amortisation method for intangible assets is inappropriate for the same reasons set out above. This rebuttable presumption can be overcome, ie a revenue-based amortisation method might be appropriate, only in two limited circumstances:

1. the intangible asset is expressed as a measure of revenue, for example when the predominant limiting factor inherent in an intangible asset is the achievement of a revenue threshold, or
2. when it can be demonstrated that revenue and the consumption of the economic benefits of the intangible asset are highly correlated.

Application of the diminishing balance method

In addition, the IASB has taken the opportunity to expand on the guidance on applying the diminishing balance method to property, plant and equipment and to intangible assets.

Commercial significance

Number of entities affected

The amendments are fairly narrow in scope and would only impact those entities using revenue as a basis for depreciating and amortising their tangible/intangible assets.

Impact on affected entities

The amendments will require entities to reconsider their basis for depreciating their assets. While such a change would be accounted for prospectively as a change in accounting estimate, the effect could be significant depending on the materiality of the depreciation charge.

Agriculture: Bearer Plants (Amendments to IAS 16 and IAS 41)

IAS 41 'Agriculture' requires all biological assets that are related to agricultural activity to be measured at fair value less costs to sell (subject to fair value being reliably measurable), based on the principle that their biological transformation is best reflected by fair value measurement. However, there is a class of biological assets, known as bearer plants, that, once mature, are held by an entity solely to grow produce over their productive life. Examples include grape vines, rubber trees and oil palms.

Constituents told the IASB that IAS 41's fair value model was not appropriate for mature bearer plants that are no longer undergoing significant biological transformation as the way they use these assets is more similar in nature to manufacturing. The IASB listened to these concerns and made changes by issuing 'Agriculture: Bearer Plants (Amendments to IAS 16 and IAS 41)'. The amendments:

- define a bearer plant as a living plant that:
  - is used in the production or supply of agricultural produce;
  - is expected to bear produce for more than one period; and
  - has a remote likelihood of being sold as agricultural produce, except for incidental scrap sales (this definition is not met if there is a more than 'remote' likelihood that the plant will be sold as agricultural produce, incidental scrap sales excepted)
- include bearer plants within the scope of IAS 16 'Property, Plant and Equipment' instead of IAS 41 (produce growing on bearer plants remains within the scope of IAS 41)
- clarify that until bearer plants are mature, they are to be accounted for as self-constructed items of property, plant and equipment
- require any difference between fair value and the carrying amount under IAS 41 (fair value less costs to sell) at the time of initial adoption to be recognised in opening retained earnings
- exempt entities from the requirement in IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors' to disclose the impact of initial application on each financial statement line item affected
- permit the fair value of the bearer plants at the beginning of the earliest period presented to be used as the deemed cost for IAS 16 purposes when first applied.

The amendments do not result in any changes to existing accounting for 'bearer livestock' or plants with more than a remote likelihood of being harvested and sold as agricultural produce.

Commercial significance

Number of entities affected

The amendments will only impact those entities that have bearer plants.

Impact on affected entities

Once implemented, the amendments should serve to reduce the cost, complexity and practical difficulties of measuring bearer plants at fair value less costs to sell in the absence of markets for these assets. They will also enable the entities to better reflect the economic nature of these plants as productive assets.

Annual Improvements to IFRSs 2012-2014 Cycle

This publication is a collection of amendments to IFRSs resulting from issues that were discussed by the IASB during the project cycle for making annual improvements that began in 2012 and which were included in an Exposure Draft published in December 2013. The IASB uses the Annual Improvements process to make necessary, but non-urgent, amendments to IFRSs that will not be included as part of any other project. By presenting the amendments in a single document rather than as a series of piecemeal changes, the IASB aims to ease the burden of change for all concerned. A summary of the issues addressed is set out in the table.

Summary of Improvements to IFRSs 2012-2014

Standard affected	Subject	Summary of amendment
IFRS 5 'Non-current Assets Held for Sale and Discontinued Operations'	Change in methods of disposal	Amends IFRS 5 to clarify that a direct reclassification of an asset (or disposal group) from being held for sale to being held for distribution (or vice-versa) is not treated as a cessation of held for sale classification. Accordingly the entity continues to measure the asset (or disposal group) at the lower of carrying amount and fair value less costs to sell. The amendments also state that when an entity determines that the asset (or disposal group) is no longer available for immediate distribution or that the distribution is no longer highly probable, it should cease held-for-distribution accounting and apply the guidance in paragraphs 27-29.
IFRS 7 'Financial Instruments: Disclosures'	Servicing contracts	The amendments provide additional guidance to help entities identify the circumstances under which a contract to 'service' financial assets is considered to be 'continuing involvement' in those assets for the purposes of applying the disclosure requirements in paragraphs 42E-42H of IFRS 7. Such circumstances commonly arise when, for example, the servicing fee is dependent on the amount or timing of the cash flows collected from the transferred financial asset or when a fixed fee is not paid in full due to non-performance of that asset.
	Applicability of the amendments to IFRS 7 to condensed interim financial statements	These amendments clarify that the additional disclosures required by the recent amendments to IFRS 7 'Disclosure–Offsetting Financial Assets and Financial Liabilities' are not specifically required for all interim periods. However, these disclosures may still be required in some circumstances to meet the general principles of IAS 34.

Summary of Improvements to IFRSs 2012-2014

Standard affected	Subject	Summary of amendment
IAS 19 'Employee Benefits'	Discount rate: regional market issue	Paragraph 83 of IAS 19 requires that the currency and term of the corporate or government bonds used to determine the discount rate for post-employment benefit obligations must be consistent with the currency and estimated term of the obligations. The amendments clarify that the assessment of the depth of the corporate bond market shall be made at the currency level rather than the country level. This will be particularly relevant to Eurozone entities with defined benefit plans.
IAS 34 'Interim Financial Reporting'	Disclosure of information 'elsewhere in the interim financial report'	The amendments clarify the meaning of disclosure of information 'elsewhere in the interim financial report' and require the inclusion of a cross-reference from the interim financial statements to the location of this information. The amendments specify that information incorporated by cross-reference must be available to users of the interim financial statements on the same terms and at the same time as those statements.

The amendments are effective for annual periods beginning on or after 1 January 2016, although entities are permitted to apply them earlier. The amendments are effective on a retrospective basis, except for the amendments to IFRS 5 which are to be applied prospectively.

'The IASB uses the Annual Improvements process to make necessary, but non-urgent, amendments to IFRSs that will not be included as part of any other project.'

Commercial significance

Number of entities affected

The amendments make changes to relatively narrow areas within IFRSs.

Impact on affected entities

The IASB's Annual Improvements process addresses non-urgent, but necessary minor amendments to IFRSs. By their nature then, their commercial significance can be expected to be low. Overall the changes are largely uncontroversial although the amendments to IAS 19 may be significant for some entities in the Eurozone that have defined benefit plans.

Equity Method in Separate Financial Statements (Amendments to IAS 27)

In August 2014, the IASB published narrow scope amendments to IAS 27 'Separate Financial Statements', entitled 'Equity Method in Separate Financial Statements (Amendments to IAS 27)', which allow the use of the equity method to account for investments in subsidiaries, joint ventures and associates.

Prior to the publication of the Amendments to IAS 27, the Standard required an entity to account for its investments in subsidiaries, joint ventures and associates either at cost or in accordance with IFRS 9 'Financial Instruments' (or IAS 39 'Financial Instruments: Recognition and Measurement' where an entity has not yet adopted IFRS 9).

In responses to the IASB's 2011 Agenda Consultation, some of the IASB's constituents noted however that:

- the laws of some countries require listed companies to present separate financial statements prepared in accordance with local regulations
- those local regulations require the use of the equity method to account for investments in subsidiaries, joint ventures and associates
- in most cases, the use of the equity method would be the only difference between the separate financial statements prepared in accordance with IFRSs and those prepared in accordance with local regulations.

In response, the IASB published the Amendments to IAS 27, so introducing a third option which allows entities to account for investments in subsidiaries, joint ventures and associates under the equity method. As a result, entities will have an accounting policy choice in their separate financial statements between accounting:

- at cost
- in accordance with IFRS 9 (or IAS 39)
- under the equity method.

Entities are required to apply the same accounting for each category of investments. No transitional provisions have been included as the IASB believes entities should be able to use information that is already available to them in applying the amendments.

Commercial significance

Number of entities affected

The amendments will give an additional option to entities that prepare separate financial statements that have investments in subsidiaries, joint ventures and associates.

Impact on affected entities

The inclusion of the equity method as one of the options to account for an entity's investments in subsidiaries, joint ventures and associates in the entity's separate financial statements should serve to reduce the burdens on entities in some jurisdictions and encourage greater use of IFRS.

'These amendments allow the use of the equity method to account for investments in subsidiaries, joint ventures and associates.'

Accounting for Acquisitions of Interests in Joint Operations (Amendments to IFRS 11)

The Amendments to IFRS 11 'Joint Arrangements' provide guidance on the accounting for the acquisition of an interest in a joint operation in which the activity of the joint operation constitutes a business.

More specifically, the amendments state that an acquirer of an interest in a joint operation in which the activity of the joint operation constitutes a business, as defined in IFRS 3 'Business Combinations', should:

- apply all of the principles on business combinations accounting in IFRS 3 and other IFRSs apart from principles that conflict with the guidance of IFRS 11. This requirement also applies to the acquisition of additional interests in an existing joint operation and to the acquisition of an interest in a joint operation on its formation
- provide disclosures for business combinations as required by IFRS 3 and other IFRSs.

Additionally, consequential amendments to IFRS 1 'First-time Adoption of International Financial Reporting Standards' have been made so that IFRS 1's exemption for past business combinations can also apply to past acquisitions of interests in joint operations in which the activity of the joint operation constitutes a business.

The amendments to IFRS 11 are to be applied prospectively for annual periods beginning on or after 1 January 2016, with earlier application permitted.

Commercial significance

Number of entities affected

The amendments will affect entities accounting for the acquisition of an interest in a joint operation that constitutes a business.

Impact on affected entities

Prior to the publication of the amendments, there was diversity in the way that entities accounted for the acquisition of an interest in a Joint Operation that constitutes a business. Some entities applied an IFRS 3 approach, some a cost approach and some a hybrid approach. The amendments will reduce such diversity by requiring an IFRS 3 approach to be used. The impact is softened however by the fact that the amendments are to be applied prospectively.

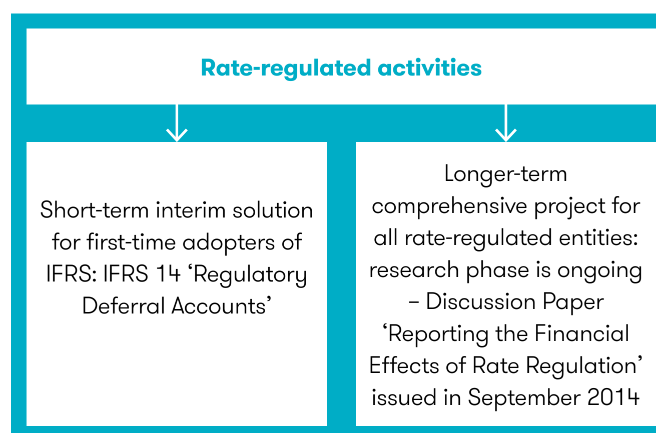
IFRS 14 Regulatory Deferral Accounts

In January 2014, the IASB issued an interim Standard on rate-regulated activities entitled IFRS 14 'Regulatory Deferral Accounts'.

Many governments regulate the supply and pricing of particular types of activity by private entities, including utilities such as gas, electricity and water. These regulations are often designed to allow the suppliers to recover specified costs and other amounts through the prices they charge to customers. However, rate regulation is also designed to protect the interests of customers. Consequently, the rate regulation may defer the recovery of these amounts in order to reduce price volatility. The suppliers usually keep track of these deferred amounts in separate regulatory deferral accounts until they are recovered through future sales of the regulated goods or services.

As a result, the requirements of some national accounting standard-setting bodies permit or require entities that are subject to certain types of rate regulation to capitalise and defer expenditures (or income) that would otherwise be recognised as expenses (or income) in the statement of profit or loss and other comprehensive income by non-rate-regulated entities. These amounts are often referred to as 'regulatory deferral' (or 'variance') accounts.

IFRS 14 has been published as an interim Standard that will allow entities that adopt IFRS for the first-time to preserve the existing accounting policies that they have in place for rate-regulated activities with some modifications designed to enhance comparability (the Standard requires that the effect of recognising the deferred account balances that arise from rate regulation must be presented separately from other items).



A longer term project will address the more difficult question of whether regulatory deferral account balances meet the definitions of assets and liabilities in the 'Conceptual Framework'. Depending on the outcome of this longer term project, the IASB could decide to issue a comprehensive Standard for rate-regulated activities or alternatively not to develop any specific requirements. In the meantime however, the publication of IFRS 14 allows entities in jurisdictions that are transitioning to IFRS to continue to use the accounting for regulatory deferral accounts that they have previously used until the outcome of the IASB's longer term project is resolved.

> ‘IFRS 14 ‘Regulatory Deferral Accounts’ is an interim Standard on rate-regulated activities.’

Summary of IFRS 14 Regulatory Deferral Accounts

Features	Key points
Scope	• applies to first-time adopters that conduct rate-regulated activities and have recognised regulatory deferral accounts under their previous GAAP • application is not mandatory, but if a first-time adopter is eligible to apply the Standard, it must elect to do so in its first financial statements. If it does not, the entity will not be eligible to apply the Standard in subsequent periods • entities that already present IFRS financial statements are not eligible to apply IFRS 14.
Accounting requirements	• permits an entity that adopts IFRS to continue to use, in its first and subsequent IFRS financial statements, its previous GAAP accounting policies for the recognition, measurement, impairment and derecognition of regulatory deferral account balances • a regulatory deferral account balance is defined as the balance of any expense (or income) account that would not be recognised as an asset or a liability in accordance with other Standards, but that qualifies for deferral because it is included, or is expected to be included, by the rate regulator in establishing the rate(s) that can be charged to customers.
Presentation	Isolates impact of recognising regulatory deferral account balances in IFRS financial statements by requiring the following separate line items: Two line items in the statement of financial position: • regulatory deferral account debit balances – after total assets • regulatory deferral account credit balances – after total liabilities Two line items in the statement of profit or loss and Other Comprehensive Income (OCI): • movement in regulatory deferral account balances related to profit or loss • movement in regulatory deferral account balances related to OCI.
Disclosures	Specific disclosures are required to identify the nature of, and risks associated with, the rate regulation that has resulted in the recognition of regulatory deferral account balances in accordance with the Standard.

Commercial significance

Number of entities affected

IFRS 14 is a very limited scope Standard which aims to provide a transitory solution for rate-regulated entities that have not yet adopted IFRS.

Impact on affected entities

The inability to recognise regulatory assets and liabilities had proved to be a significant issue which had prevented rate-regulated entities in some jurisdictions from moving to IFRS.

IFRS 14 will reduce this significant barrier to the adoption of IFRS, and should improve comparability by reducing the number of different accounting frameworks being used.

Investment Entities: Applying the Consolidation Exception (Amendments to IFRS 10, IFRS 12 and IAS 28)

In December 2014, the IASB published narrow scope amendments to IFRS 10 'Consolidated Financial Statements', IFRS 12 'Disclosure of Interests in other entities', IAS 28 'Investments in Associates and Joint Ventures' entitled 'Investment Entities: Applying the Consolidation Exception (Amendments to IFRS 10, IFRS 12 and IAS 28)'.

The publication introduces three narrow-scope amendments to IFRS 10 and IAS 28 addressing the accounting for interests in investment entities and applying the consolidation exemption.

Exemption from preparing consolidated financial statements

Under IFRS 10 'Consolidated Financial Statements', a parent entity is exempted from preparing consolidated financial statements if it meets certain criteria. One of these criteria is that the entity's ultimate or any intermediate parent produces consolidated financial statements that are available for public use and comply with IFRSs. This gave rise to confusion over whether the exemption remains available if the ultimate or intermediate parent is an investment entity and ceases to prepare consolidated financial statements when it applies IFRS 10's investment entity exception.

The amendments confirm that the exemption from consolidation is available to parent entities that are subsidiaries of investment entities in these circumstances.

A subsidiary that provides services that relate to the parent's investment activities

The general rule under IFRS 10's investment entity exception is that an investment entity measures its subsidiaries at fair value through profit or loss. This fair value requirement applies to subsidiaries that are investments, and to subsidiaries that are themselves investment entities. There is however an exception to the exception: subsidiaries that provide services that relate to the investment entity's investment activities continue to be consolidated.

These requirements have led to some confusion over the accounting required when an investment entity's subsidiary is itself an investment entity and also provides investment-related services. IFRS 10 seemed to provide conflicting guidance on this situation.

The amendments modify IFRS 10, clarifying that the consolidation requirement applies only to subsidiaries that are not themselves investment entities and whose main purpose and activities are providing services that relate to the investment entity's investment activities.

> ‘The publication introduces three narrow-scope amendments to IFRS 10 and IAS 28 addressing the accounting for interests in investment entities and applying the consolidation exemption.’

Application of the equity method by a non-investment entity investor to an investment entity investee

IFRS 10 states that a non-investment entity parent must consolidate all entities under its control, including those controlled through an investment entity subsidiary. The non-investment entity parent cannot then retain the fair value measurement basis applied by an investment entity subsidiary. IAS 28 ‘Investments in Associates’, however, contained no equivalent guidance as to whether a similar principle should be followed in relation to the equity method accounting applied by a non-investment entity investor to its investments in associates or joint ventures that are investment entities.

The amendments therefore add guidance to IAS 28. They provide relief to non-investment entity investors with interests in associates or joint ventures that are investment entities by allowing them to retain, when applying the equity method, the fair value measurement applied by the investment entity associates or joint ventures to their interests in subsidiaries.

Commercial significance

Number of entities affected

These amendments only affect certain specific situations involving investment entities.

Impact on affected entities

We anticipate that these amendments will save entities the cost and time they would have otherwise incurred unwinding the fair value accounting applied by investment entity associates or joint ventures or preparing additional sets of consolidated financial statements, while still providing investors and other users with information that is most relevant to them.

With regards to the consolidation or non-consolidation of a subsidiary that provides services related to its investment entity parent’s investment activities, the amendments should offer improved clarity to users by addressing inconsistencies in the former guidance.

Disclosure Initiative (Amendments to IAS 1)

In December 2014, the IASB published narrow scope amendments to IAS 1 'Presentation of Financial Statements', entitled Disclosure Initiative (Amendments to IAS 1). The amendments are designed to further encourage companies to apply professional judgement in determining what information to disclose in their financial statements. Furthermore, the amendments clarify that companies should use professional judgement in determining where and in what order information is presented in the financial disclosures.

The amendments are part of the IASB's Disclosure Initiative project. The Disclosure Initiative itself is in part a reaction to the growing clamour over disclosure overload in financial statements. It consists of a number of projects, both short- and medium-term, and ongoing activities that explore how presentation and disclosure principles and requirements in existing Standards can be improved.

The amendments:

- clarify the materiality requirements in IAS 1, including an emphasis on the potentially detrimental effect of obscuring useful information with immaterial information
- clarify that IAS 1's specified line items in the statement(s) of profit or loss and other comprehensive income and the statement of financial position can be disaggregated
- add requirements for how an entity should present sub-totals in the statement(s) of profit or loss and other comprehensive income and the statement of financial position
- clarify that entities have flexibility as to the order in which they present the notes, but also emphasise that understandability and comparability should be considered by an entity when deciding that order
- remove potentially unhelpful guidance in IAS 1 for identifying a significant accounting policy.

Commercial significance

Number of entities affected

The amendments will impact all entities in the preparation of their financial statements.

Impact on affected entities

These amendments are in the main clarifications which should reduce rather than add to the burden of financial statement preparation. They will achieve limited, short-term improvements and are a good start to the overall larger initiative.

'The amendments are designed to further encourage companies to apply professional judgement in determining what information to disclose in their financial statements.'

Effective from 1 January 2017

The Standards discussed on pages 16 to 20 are effective for accounting periods beginning on or after 1 January 2017.

It may be possible to apply these changes early depending on local legislation and the requirements of the particular change in concern. The Standards are:

- Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to IAS 12)
- Disclosure Initiative (Amendments to IAS 7)
- Annual Improvements to IFRSs 2014–2016 Cycle

Note – Included in 'Annual Improvements to IFRSs 2014–2016 Cycle' are amendments to IFRS 1 and IAS 28 which have an effective date of 1 January 2018.

Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to IAS 12)

In January 2015, the IASB made narrow-scope amendments to IAS 12 'Income Taxes' entitled 'Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to IAS 12)'. The focus of the amendments is to clarify how to account for deferred tax assets related to debt instruments measured at fair value, particularly where changes in the market interest rate decrease the fair value of a debt instrument below cost.

The IFRS Interpretations Committee (IFRIC) was originally asked to clarify a number of issues surrounding the recognition of deferred tax assets related to debt instruments measured at fair value. The IFRIC referred the issue to the IASB, leading to an Exposure Draft being issued in August 2015 and now the final amendments.

Matters addressed

The amendments add guidance to the Standard in the following areas where diversity in practice previously existed:

Matters addressed by the amendments

Topic	Issue	Clarification
Existence of a deductible temporary difference	Do decreases in the carrying amount of a fixed-rate debt instrument for which the principal is paid on maturity always give rise to a deductible temporary difference if the debt instrument is measured at fair value and if its tax base remains at cost.	The existence of a deductible temporary difference depends solely on a comparison of the carrying amount of an asset and its tax base at the end of the reporting period, and is not affected by possible future changes in the carrying amount. Consequently, decreases below cost in the carrying amount of a fixed-rate debt instrument measured at fair value for which the tax base remains at cost give rise to a deductible temporary difference.
Recovering an asset for more than its carrying amount	Should an entity assume that it will recover an asset for more than its carrying amount when estimating probable future taxable profit against which deductible temporary differences assessed for utilisation if such recovery is probable (relevant when taxable profit from other sources is insufficient for the utilisation of the deductible temporary differences related to debt instruments measured at fair value).	The estimate of probable future taxable profit may include the recovery of some of an entity's assets for more than their carrying amount if there is sufficient evidence that it is probable that the entity will achieve this.

Matters addressed by the amendments

Topic	Issue	Clarification
Probable future taxable profit against which deductible temporary differences are assessed for utilisation	When an entity assesses whether it can utilise a deductible temporary difference against probable future taxable profit, does that probable future taxable profit include the effects of reversing deductible temporary differences.	Deductible temporary differences are utilised by deduction against taxable profit, excluding deductions arising from reversal of those deductible temporary differences. Consequently, taxable profit used for assessing the utilisation of deductible temporary differences is different from taxable profit on which income taxes are payable. If those deductions were not excluded, then they would be counted twice.
Combined versus separate assessment	Should an entity assess whether a deferred tax asset is recognised for each deductible temporary difference separately, or in combination with other deductible temporary differences.	The Amendments clarify that an entity should consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of the deductible temporary difference. If tax law imposes no such restrictions, an entity assesses a deductible temporary difference in combination with all of its other deductible temporary differences.

Commercial significance

Number of entities affected

The amendments will impact entities with debt instruments measured at fair value.

Impact on affected entities

These amendments are narrow in scope and uncontroversial in nature.

'The focus of the amendments is to clarify how to account for deferred tax assets related to debt instruments measured at fair value, particularly where changes in the market interest rate decrease the fair value of a debt instrument below cost.'

Disclosure Initiative (Amendments to IAS 7)

In January 2015, the IASB published narrow scope amendments to IAS 7 'Statement of Cash Flows', entitled 'Disclosure Initiative (Amendments to IAS 7)'. The amendments respond to requests from investors for improved disclosures about an entity's financing activities. As their name suggests, the amendments form another part of the IASB's Disclosure Initiative.

The amendments are designed to improve the quality of information provided to users of financial statements about changes in an entity's debt and related cash flows (and non-cash changes).

The amendments:

- require an entity to provide disclosures that enable users to evaluate changes in liabilities arising from financing activities. An entity applies its judgement when determining the exact form and content of the disclosures needed to satisfy this requirement
- suggest a number of specific disclosures that may be necessary in order to satisfy the above requirement, including:
  - changes in liabilities arising from financing activities caused by changes in financing cash flows, foreign exchange rates or fair values, or obtaining or losing control of subsidiaries or other businesses
  - a reconciliation of the opening and closing balances of liabilities arising from financing activities in the statement of financial position including those changes identified immediately above.

Commercial significance

Number of entities affected

The amendments will impact all entities in the preparation of their financial statements.

Impact on affected entities

These amendments are in the main clarifications which should reduce rather than add to the burden of financial statement preparation. They aim to improve the disclosures about an entity's financing activities and changes in related liabilities.

'The amendments respond to requests from investors for improved disclosures about an entity's financing activities.'

Annual Improvements to IFRSs 2014-2016 Cycle (Amendments to IFRS 1, IFRS 12 and IAS 28)

Issued in December 2016, this publication is a collection of amendments to IFRSs resulting from issues that were discussed by the IASB during the project cycle for making annual improvements that began in 2014 and which were included in an Exposure Draft published in November 2015. The IASB uses the Annual Improvements process to make necessary, but non-urgent, amendments to IFRSs that will not be included as part of any other project. By presenting the amendments in a single document rather than as a series of piecemeal changes, the IASB aims to ease the burden of change for all concerned. A summary of the issues addressed is set out below:

Matters addressed by the amendments

Standard affected	Subject	Summary of amendment
IFRS 1 'First-time Adoption of International Financial Reporting Standards'	Deletion of short-term exemptions for first-time adopters	A number of short-term exemptions have been deleted because the reliefs provided are no longer available or because they were relevant for reporting periods that have now passed.
IFRS 12 'Disclosure of Interests in Other Entities'	Clarification of the scope of the Standard	Clarifies the scope of IFRS 12 by specifying that its disclosure requirements (except for those in IFRS 12.B17) apply to an entity's interests irrespective of whether they are classified (or included in a disposal group that is classified) as held for sale or as discontinued operations in accordance with IFRS 5.
IAS 28 'Investments in Associates and Joint Ventures'	Measuring an associate or a joint venture at fair value	Clarifies that a qualifying entity is able to choose between applying the equity method or measuring an investment in an associate or joint venture at fair value through profit or loss, separately for each associate or joint venture at initial recognition of the associate or joint venture. Similar clarifications have been made for a reporting entity that is not an investment entity and that has an associate or a joint venture that is an investment entity. IAS 28 permits such a reporting entity the choice to retain the fair value measurements used by that investment entity associate or joint venture when applying the equity method. The amendments clarify that this choice is also made separately for each investment in an associate or joint venture that is an investment entity, at the later of the date on which: a the investment entity associate or joint venture is initially recognised b the associate or joint venture becomes an investment entity and c the investment entity associate or joint venture first becomes a parent.

The amendments are effective as follows:

- IFRS 1 'First-time Adoption of International Financial Reporting Standards' – for annual periods beginning on or after 1 January 2018
- IFRS 12 'Disclosures of Other Entities' – retrospectively in accordance with IAS 8 for annual periods beginning on or after1 January 2017
- IAS 28 'Investments in Associates and Joint Ventures' – retrospectively in accordance with IAS 8 for annual periods beginning on or after 1 January 2018, however early application is permitted.

Commercial significance

Number of entities affected

The amendments make changes to relatively narrow areas within IFRSs.

Impact on affected entities

The IASB's Annual Improvements process addresses non-urgent, but necessary minor amendments to IFRSs. By their nature then, their commercial significance can be expected to be low. Overall the changes are uncontroversial.

'The IASB uses the Annual Improvements process to make necessary, but non-urgent, amendments to IFRSs that will not be included as part of any other project.'

Effective from 1 January 2018

The Standards discussed on pages 22 to 38 are effective for accounting periods beginning on or after 1 January 2018.

It may be possible to apply these changes early depending on local legislation and the requirements of the particular change in concern. The Standards are:

- IFRS 15 Revenue from Contracts with Customers[1]
- IFRS 9 (2014) Financial Instruments
- Transfers of Investment Property (Amendments to IAS 40)
- Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (Amendments to IFRS 4)
- Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2)
- IFRIC 22 Foreign Currency Transactions and Advance Consideration

[1] Includes 'Clarifications to IFRS 15' issued in April 2016

IFRS 15 Revenue from Contracts with Customers

IFRS 15 'Revenue from Contracts with Customers' is the product of a major joint project between the IASB and the US Financial Accounting Standards Board. The previous requirements of IFRS and US GAAP were not harmonised and often resulted in different accounting treatments for economically significant transactions. In response, the Boards have developed new, fully converged requirements for the recognition of revenue under both IFRS and US GAAP. IFRS 15:

- replaces IAS 18 'Revenue', IAS 11 'Construction Contracts' and some revenue-related Interpretations
- establishes a new control-based revenue recognition model
- changes the basis for deciding whether revenue is recognised at a point in time or over time
- provides new and more detailed guidance on specific topics
- expands and improves disclosures about revenue.

IFRS 15 at a glance

Features	Key points
Who is affected?	• all entities that enter into contracts with customers with few exceptions
What is the impact?	• entities affected will need to reassess their revenue recognition policies and may need to revise them • the timing and amount of revenue recognised may not change for simple contracts for a single deliverable but most complex arrangements will be affected to some extent • IFRS 15 requires more and different disclosures
When are the changes effective?	• annual periods beginning on or after 1 January 2018 • early application is permitted.

IFRS 15 is based on a core principle that requires an entity to recognise revenue:

- in a manner that depicts the transfer of goods or services to customers
- at an amount that reflects the consideration the entity expects to be entitled to in exchange for those goods or services.

A "customer" is defined as "a party that has contracted with an entity to obtain goods or services that are an output of the entity's ordinary activities."

Applying this core principle involves following a five step model depicted above. The following table expands on the factors to consider in applying this new model.

The 'five step model'

Step	Principal considerations	Other factors to consider
1 **Identify the contract(s) with a customer**	The first step in IFRS 15 is to identify the "contract," which IFRS 15 defines as "an agreement between two or more parties that creates enforceable rights and obligations." A contract can be written, oral, or implied by an entity's customary business practices. In addition the general IFRS 15 model applies only when or if: • the contract has commercial substance • the parties have approved the contract • the entity can identify – each party's rights – the payment terms for the goods and services to be transferred • it is probable the entity will collect the consideration. If a customer contract does not meet these criteria, revenue is recognised only when either: • the entity's performance is complete and substantially all of the consideration in the arrangement has been collected and is non-refundable • the contract has been terminated and the consideration received is non-refundable. For purposes of IFRS 15, a contract does not exist if each party has an enforceable right to terminate a wholly unperformed contract without compensating the other party.	Guidance is also given on: • combining contracts • contract modifications.
2 **Identify the separate performance obligations in the contract**	Having identified a contract, the entity next identifies the performance obligations within that contract. A performance obligation is a promise in a contract with a customer to transfer either (1) a good or service, or a bundle of goods or services, that is 'distinct'; or (2) a series of distinct goods or services that are substantially the same and meet certain criteria. Performance obligations are normally specified in the contract but could also include promises implied by an entity's customary business practices, published policies or specific statements that create a valid customer expectation that goods or services will be transferred under the contract.	Guidance is given on the criteria that need to be met in order to determine whether a promised good or service is distinct.
3 **Determine the transaction price**	Under IFRS 15, the "transaction price" is defined as the amount of consideration an entity expects to be entitled to in exchange for the goods or services promised under a contract, excluding any amounts collected on behalf of third parties (for example, sales taxes). The transaction price is not adjusted for effects of the customer's credit risk, but is adjusted if the entity (eg based on its customary business practices) has created a valid expectation that it will enforce its rights for only a portion of the contract price.	An entity must consider the effects of all the following factors when determining the transaction price: • variable consideration • the constraint on variable consideration • time value of money • non-cash consideration • consideration payable to the customer.
4 **Allocate the transaction price to the performance obligations**	Under IFRS 15, an entity allocates a contract's transaction price to each separate performance obligation within that contract on a relative stand-alone selling price basis at contract inception. IFRS 15 defines a stand-alone selling price as "the price at which an entity would sell a promised good or service separately to a customer."	IFRS 15 suggests, but does not require, the following three methods as suitable for estimating the stand-alone selling price: • adjusted market assessment approach • expected cost plus margin approach • residual approach.
5 **Recognise revenue when or as an entity satisfies performance obligations**	Under IFRS 15, an entity recognises revenue when or as it transfers promised goods or services to a customer. A "transfer" occurs when the customer obtains control of the good or service. A customer obtains control of an asset (good or service) when it can direct the use of and obtain substantially all the remaining benefits from it. Control includes the ability to prevent other entities from directing the use of and obtaining the benefits from an asset. The benefits of an asset are the potential cash flows that can be obtained directly or indirectly from the asset in many ways.	A key part of the model is the concept that for some performance obligations control is transferred over time while for others control transfers at a point in time. Guidance is given in the Standard to help entities decide which is appropriate.

Other matters

In addition to the items discussed above in relation to the five step model, IFRS 15 contains guidance on a number of other matters including:

- contract costs
- warranties
- licensing
- rights of return and repurchase obligations.

The Grant Thornton International Ltd IFRS team has published a special edition of IFRS News on IFRS 15 'Revenue from Contracts with Customers'. The special edition takes readers through the key features of the new Standard and gives practical insights into how it may affect entities. This edition has recently been updated to incorporate the changes made to IFRS 15 when the IASB issued 'Clarifications to IFRS 15' in April 2016. To obtain a copy of the special edition, please get in touch with the IFRS contact in your local Grant Thornton office or go to **www.grantthornton.global/en/insights/articles/ifrs-news-special-edition-on-ifrs-15/**.

Effective date and transition

IFRS 15 is effective for annual reporting periods beginning on or after 1 January 2018. Early adoption is permitted.

Entities are required to apply the new revenue Standard either:

- retrospectively to each prior period presented, subject to some practical expedients or
- retrospectively, with the cumulative effect of initial application recognised in the current period.

An entity that chooses to restate only the current period is required to provide the following additional disclosures in the initial year of adoption:

- the current year impact of applying the new revenue Standard by financial statement line item
- an explanation of the reasons behind the significant impacts.

'The previous requirements of IFRS and US GAAP were not harmonised and often resulted in different accounting treatments for economically significant transactions. In response, the Boards have developed new, fully converged requirements for the recognition of revenue under both IFRS and US GAAP.'

> 'In April 2016, the IASB published 'Clarifications to IFRS 15 Revenue from Contracts with Customers' making several targeted changes to IFRS 15.'

Change of effective date

In September 2015, in view of the possibility of clarifying changes being made to the new Standard (refer below, these were subsequently made in April 2016), the IASB decided that a one-year deferral to IFRS 15's effective date was needed in order to ensure entities have the time required to consider both the original guidance and the forthcoming clarifications.

Therefore, in September 2015 the IASB changed the effective date of IFRS 15 from 1 January 2017 to 1 January 2018.

Clarifications to IFRS 15

Following discussions with the Revenue Transition Resource Group ('TRG'), in April 2016 the IASB published 'Clarifications to IFRS 15 Revenue from Contracts with Customers' ('the Amendments') making several targeted changes to IFRS 15. The TRG was formed by both the FASB and the IASB Boards after issuing the new Standard in 2014 and is tasked with supporting the implementation of IFRS 15. While a total of five topics discussed by the TRG indicated the possible need for clarification, the IASB has elected to address just three of these, striking a balance between being responsive to issues raised while minimising disruption to the implementation process. The Amendments also introduce two practical expedients available for use by entities implementing the new Standard.

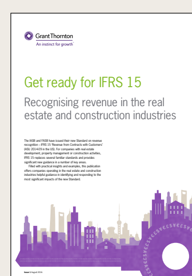
The Amendments clarify the application of IFRS 15 in three specific areas to reduce the amount of diversity in practice that might otherwise result from differing views on how to implement the requirements of the new standard. They will help companies:

- identify performance obligations (by clarifying how to apply the concept of 'distinct')
- determine whether a company is a principal or an agent in a transaction (by clarifying how to apply the control principle)
- determine whether a licence transfers to a customer at a point in time or over time (by clarifying when a company's activities significantly affect the intellectual property to which the customer has rights).

The Amendments also create two additional practical expedients available for use when implementing IFRS 15:

- for contracts that have been modified before the beginning of the earliest period presented, the Amendments allow companies to use hindsight when identifying the performance obligations, determining the transaction price, and allocating the transaction price to the satisfied and unsatisfied performance obligations
- companies applying the full retrospective method are permitted to ignore contracts already complete at the beginning of the earliest period presented.

The Amendments are effective for annual periods beginning on or after 1 January 2018 (the effective date of the new Standard). Earlier application is permitted.



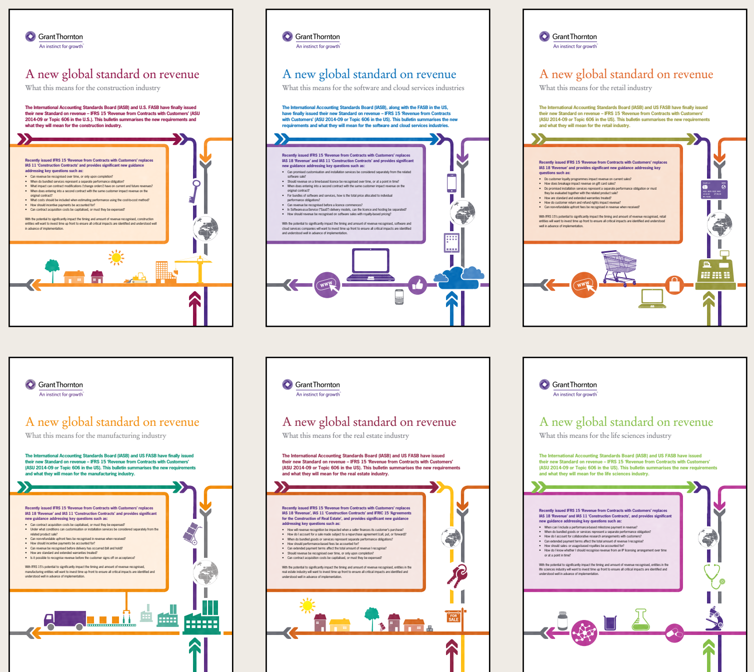
The Grant Thornton International Ltd IFRS team has released 'Get ready for IFRS 15 – Recognising revenue in the real estate and construction indusries', our first more detailed look at the issues facing companies as they prepare themselves for IFRS 15. To obtain your copy, please get in touch with the IFRS contact in your local Grant Thornton office or go to **www.grantthornton.global/en/insights/articles/get-ready-for-ifrs-15-rec/**.

The Grant Thornton International Ltd IFRS Team has released six publications in a series of 'industry insights' on IFRS 15 'Revenue from Contracts with Customers'.

The industry insights publications look at what the new Standard means for the following industries:

- construction
- software & cloud services
- retail
- manufacturing
- real estate
- life sciences.

To obtain a copy of any of the industry insights publications, please get in touch with the IFRS contact in your local Grant Thornton office or go to **www.grantthornton.global/en/service/Assurance/ifrs/accounting-for-revenue-under-ifrs-15/**.



Commercial significance

Most Number of entities affected

IFRS 15 impacts all entites that enter into contracts with customers with few exceptions.

High Impact on affected entities

The impact on the top line will very much depend on each entity's specific customer contracts and how the much less detailed existing Standards have been applied. For some it will be a significant shift while others may see only minor changes. Entities should start assessing the impact IFRS 15 on their financial statements now if they have not done so already.

IFRS 9 (2014) Financial Instruments

The IASB began its overhaul of the accounting for financial instruments in the summer of 2009 in response to the widespread criticism of IAS 39 and its alleged role in contributing to the financial crisis of 2007/8. Due to the complexity of the issues involved, the project was completed in a number of stages as follows:

- November 2009: the classification and measurement of financial assets
- October 2010: requirements for classifying and measuring financial liabilities and derecognising financial assets and financial liabilities were added
- November 2013: requirements on hedge accounting were introduced
- July 2014: the IASB issued IFRS 9 (2014) adding requirements on impairment and amending the Standard's classification and measurement requirements.

Following the publication of IFRS 9 (2014) the Standard as a whole is now complete. The different parts of the Standard are discussed in greater detail below.

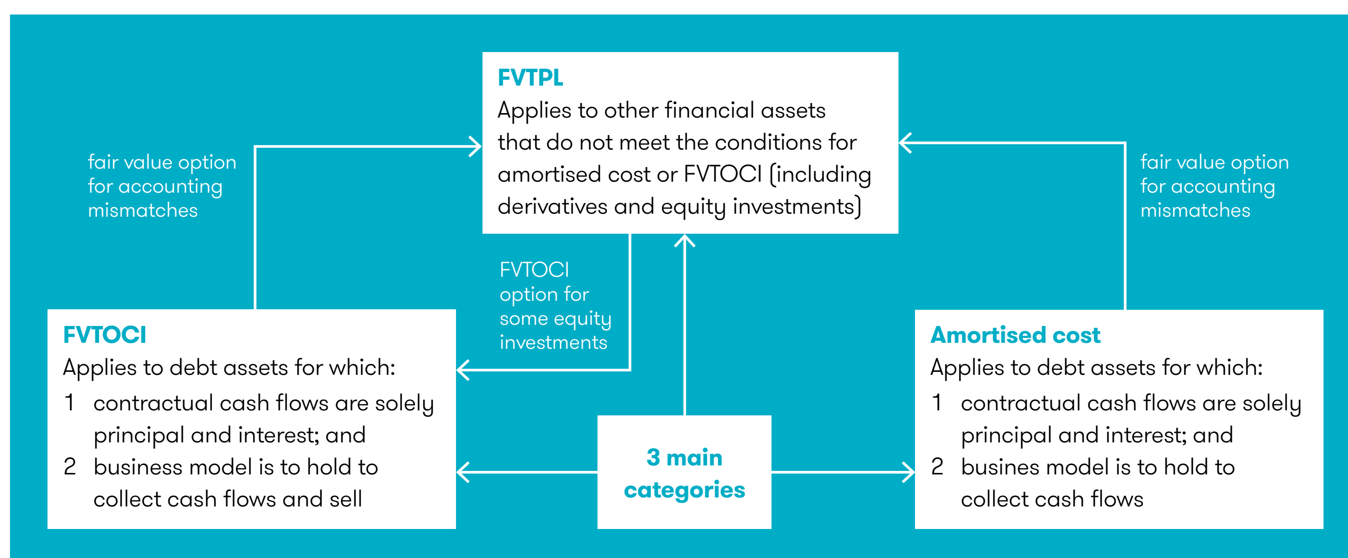
Classification and measurement of financial assets

The classification and measurement of financial assets was one of the areas of IAS 39 that received the most criticism during the financial crisis. In publishing the original version of IFRS 9, the IASB therefore made a conscious effort to reduce the complexity in accounting for financial assets by just having two categories (fair value and amortised cost). However following comments that having just two categories created too sharp a dividing line and failed to reflect the way many businesses manage their financial assets, an additional category was added in July 2014 when IFRS 9 (2014) was published.

Classification

Under IFRS 9 each financial asset is classified into one of three main classification categories:

- amortised cost
- fair value through other comprehensive income (FVTOCI)
- fair value through profit or loss (FVTPL).



IFRS 9 introduces:

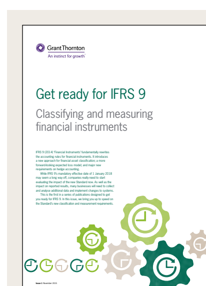
- **a new approach for financial asset clarification**
- **a more forward-looking expected loss impairment model**
- **major new requirements on hedge accounting.**

The classification is determined by both:

1. the entity's business model for managing the financial asset ('business model test'); and
2. the contractual cash flow characteristics of the financial asset ('cash flow characteristics test').

The diagramme on the previous page summarises the three main categories and how the business model and cash flow characteristics determine the applicable category.

In addition, IFRS 9 contains an option which allows an entity to designate a financial asset at fair value through profit or loss and an additional option to classify investments in equity instruments in a special 'equity – FVTOCI' category.



'Get ready for IFRS 9: Classifying and measuring financial Instruments' is the first in a series of publications designed to get you ready for IFRS 9. In this issue we bring you up to speed on the Standard's new classification and measurement requirements. To obtain your copy, please get in touch with the IFRS contact in your local Grant Thornton office or go to **www.grantthornton.global/en/insights/articles/get-ready-for-ifrs-9/**.

The business model test

IFRS 9 uses the term 'business model' in terms of how financial assets are managed and the extent to which cash flows will result from collecting contractual cash flows, selling financial assets or both. The Standard positively defines two such 'business models':

- a business model whose objective is to hold the financial asset in order to collect contractual cash flows ('hold to collect'); and
- a business model in which assets are managed to achieve a particular objective by both collecting contractual cash flows and selling financial assets ('hold to collect and sell').

Business models other than the two above result in classification of financial assets at fair value through profit or loss.

The cash flow characteristics test

The second condition for classification in the amortised cost classification or FVTOCI category can be labelled the 'solely payments of principal and interest' (SPPI) test. The requirement is that the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

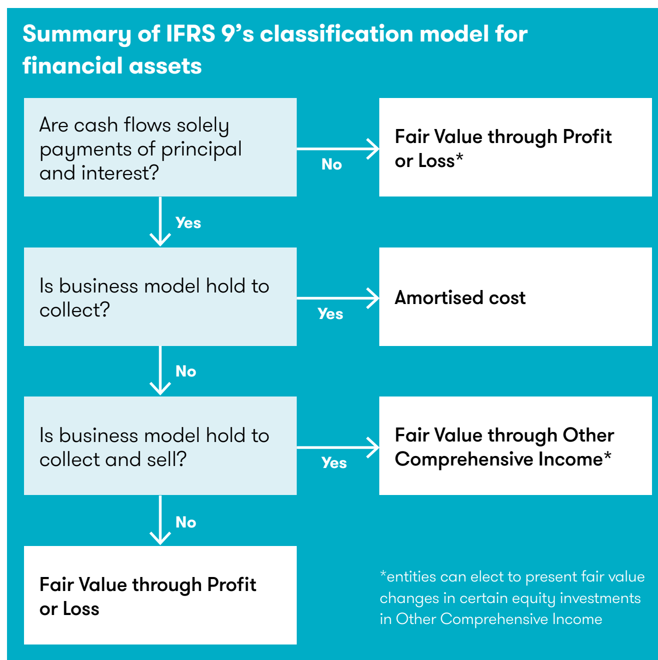
For the purpose of applying this test, 'principal' is the fair value of the financial asset at initial recognition. 'Interest' consists of consideration for:

- the time value of money
- the credit risk associated with the principal amount outstanding during a particular period of time
- other basic lending risks and costs
- a profit margin.

Contractual cash flows that are SPPI are consistent with a basic lending arrangement. Contractual terms that introduce exposures to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement however, such as exposure to changes in equity prices or commodity prices, fail the SPPI test. Similarly contracts that increase leverage fail the test as they increase the variability of the contractual cash flows with the result that they do not have the economic characteristics of interest.

Summary of classification model

The diagramme shows how IFRS 9's business model test and cash flow characteristics test interact in determining the classification of financial assets.



Classification and measurement of financial liabilities

In October 2010, the IASB amended IFRS 9 to incorporate requirements on the classification and measurement of financial liabilities. Most of IAS 39's requirements have been carried forward unchanged to IFRS 9. Changes were however made to address issues related to own credit risk where an entity takes the option to measure financial liabilities at fair value.

Majority of requirements retained

Under IAS 39 most liabilities are measured at amortised cost or bifurcated into a host instrument measured at amortised cost, and an embedded derivative, measured at fair value.

Liabilities that are held for trading (including all derivative liabilities) are measured at fair value. These requirements have been retained.

Own credit risk

The requirements related to the fair value option for financial liabilities have however been changed to address own credit risk. Where an entity chooses to measure its own debt at fair value, IFRS 9 now requires the amount of the change in fair value due to changes in the entity's own credit risk to be presented in other comprehensive income. This change addresses the counterintuitive way in which a company in financial trouble was previously able to recognise a gain based on its theoretical ability to buy back its own debt at a reduced cost.

The only exception to the new requirement is where the effects of changes in the liability's credit risk would create or enlarge an accounting mismatch in profit or loss, in which case all gains or losses on that liability are to be presented in profit or loss.

In November 2013, the IASB amended IFRS 9 to allow these changes to be applied in isolation without the need to change any other accounting for financial instruments.

Elimination of the exception from fair value measurement for certain derivative liabilities

The new version of IFRS 9 also eliminates the exception from fair value measurement for derivative liabilities that are linked to and must be settled by delivery of an unquoted equity instrument. Under IAS 39, if those derivatives were not reliably measurable, they were required to be measured at cost. IFRS 9 requires them to be measured at fair value.

Simplifications compared to IAS 39

Features	Key points
Objective of the Standard	• to better align hedging from an accounting point of view with entities' underlying risk management activities
Similarities with IAS 39	• hedge accounting remains an optional choice – the three types of hedge accounting (fair value hedges, cash flow hedges and hedges of a net investment) remain – formal designation and documentation of hedge accounting relationships is required – ineffectiveness needs to be measured and included in profit or loss – hedge accounting cannot be applied retrospectively
The major changes	• increased eligibility of hedged items – increased eligibility of hedging instruments and reduced volatility – revised criteria for hedge accounting qualification and for measuring hedge ineffectiveness – a new concept of rebalancing hedging relationships – new requirements restricting the discontinuance of hedge accounting.

Derecognition of financial assets and financial liabilities

In October 2010, the requirements in IAS 39 related to the derecognition of financial assets and financial liabilities were incorporated unchanged into IFRS 9.

The IASB had originally envisaged making changes to the derecognition requirements of IAS 39. In the summer of 2010, however, the IASB revised its strategy, having concluded that IAS 39's requirements in this area had performed reasonably during the financial crisis. IAS 39's derecognition requirements have therefore been incorporated into IFRS 9 unchanged, while new disclosure requirements were instead issued in October 2010 as an amendment to IFRS 7 'Financial Instruments: Disclosures'.

Hedge accounting

In November 2013, the IASB published Chapter 6 of IFRS 9 'Hedge Accounting'.

IAS 39's hedge accounting requirements had been heavily criticised for containing complex rules which either made it impossible for entities to use hedge accounting or, in some cases, simply put them off doing so. As an example, hedge effectiveness was judged on both a prospective and a retrospective basis, with a 'bright-line' quantitative range of 80-125% being used to assess retrospective effectiveness on a quantitative basis. Anything outside this range resulted in the discontinuance of hedge accounting, leading to a sharp increase in profit and loss volatility.

In part this complexity was a reflection of the fact that the hedge accounting requirements were an exception to IAS 39's normal requirements. There was however also a perception that hedge accounting did not properly reflect entities' actual risk management activities, thereby reducing the usefulness of their financial statements. IFRS 9's new requirements look to rectify some of these problems, aligning hedge accounting more closely with entities' risk management activities by:

- increasing the eligibility of both hedged items and hedging instruments
- introducing a more principles-based approach to assessing hedge effectiveness.

As a result, the new requirements should serve to reduce profit or loss volatility. The increased flexibility of the new requirements are however partly offset by entities being prohibited from voluntarily discontinuing hedge accounting and also by enhanced disclosure requirements. The table above gives a highly summarised view of the new requirements.

For more information on IFRS 9's hedge accounting requirements, please refer to our Special Edition of IFRS News 'IFRS 9 Hedge accounting' which can be obtained from your IFRS contact in your local Grant Thornton office or go to **www.grantthornton.global/en/insights/articles/ifrs9-hedge-accounting/**.

‘Extensive transition provisions have been included due to the complexity of the material and the phased way in which the project has been completed.’

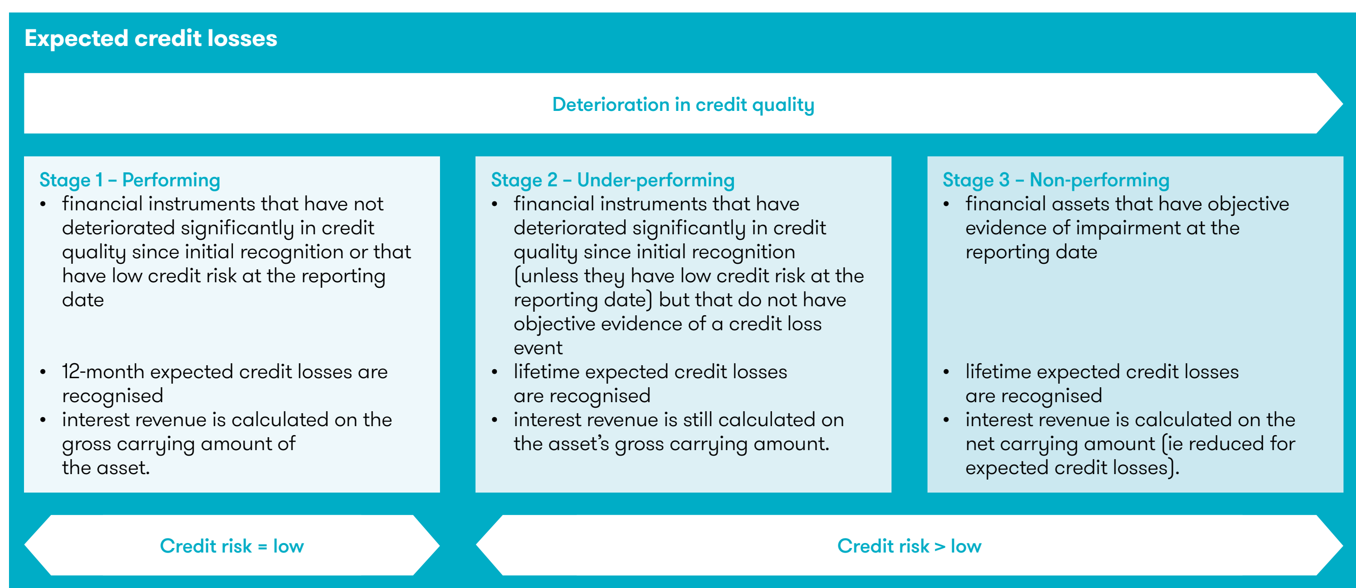
Impairment

IFRS 9 (2014) contains the Standard’s requirements on impairment, including the recognition of expected credit losses. IAS 39’s impairment requirements had been criticised for being overly complicated and resulting in impairment being recognised at too late a stage. IFRS 9 (2014) addresses these criticisms by applying the same impairment model to all financial instruments that are subject to impairment accounting and by using more forward-looking information. In applying this more forward-looking approach, a distinction is made between:

- financial instruments that have not deteriorated significantly in credit quality since initial recognition or that have low credit risk and
- financial instruments that have deteriorated significantly in credit quality since initial recognition and whose credit risk is not low.

‘12-month expected credit losses’ are recognised for the first category while ‘lifetime expected credit losses’ are recognised for the second category. There is also a third step to the model in the sense that for assets which actually become credit-impaired after initial recognition, interest is calculated on the asset’s amortised cost (i.e. the amount net of the loss allowance) as opposed to its gross carrying amount.

‘Get ready for IFRS 9: Impairment’ is the second in a series of publications designed to get you ready for IFRS 9. In this issue we bring you up to speed on the Standard’s new impairment requirements. To obtain your copy, please get in touch with the IFRS contact in your local Grant Thornton office or go to **www.grantthornton.global/en/insights/articles/get-ready-for-ifrs-9-issue-2/**.



For more information on this Standard, please refer to our Special Edition of IFRS News 'IFRS 9 (2014)', which can be obtained from your IFRS contact in your local Grant Thornton office or go to **www.grantthornton.global/en/insights/articles/ifrs-news-special-edition-on-ifrs-9/**.

Effective date and transition disclosures

IFRS 9 (2014) introduces a new mandatory effective date for the Standard of accounting periods beginning on or after 1 January 2018.

Extensive transition provisions have been included due to the complexity of the material and the phased way in which the project has been completed.

Advantages and disadvantages of early adoption of IFRS 9

Advantages

- improved ability to align accounting with the company's business model for managing financial assets
- gives a (one-off) opportunity to reclassify financial assets on initial adoption (assuming all the criteria are met)
- only one set of impairment rules needs to be considered, with no separate impairment assessment (or losses) for investment in equity instruments
- simplified accounting for and valuation of financial instruments containing embedded derivatives in asset host contracts
- enables hedge accounting to be aligned more closely with entities' risk management activities
- avoids counter-intuitive results arising from changes in own credit risks where the option to measure financial liabilities at fair value has been taken.

Disadvantages

- need to re-evaluate the classification of all instruments within the scope of IAS 39, with consequent implications for system changes
- restricted ability to reclassify financial instruments on an ongoing basis
- system changes will need to be made in order to generate the information necessary to implement the Standard's three-stage impairment model
- inability to voluntarily discontinue hedge accounting
- complicated transition provisions as a result of the phased completion of the project.

Commercial significance

Number of entities affected

Because the definition of a financial instrument is so wide, most companies can expect to be affected. Even companies with relatively simple debtors and creditors should consider the changes. In addition, the greater alignment of IFRS 9's hedge accounting requirements with entities risk management practices may encourage entities who engage in economic hedging to also apply hedge accounting.

Impact on affected entities

The new Standard, with its reduced number of measurement categories, should help to reduce the complexity in accounting for financial instruments. In the short-term however, it may lead to far reaching changes, with companies needing to re-evaluate the classification of all instruments within the scope of IAS 39.

In addition to the impact on companies' financial position and reported results, many businesses will need to collect and analyse additional data and implement changes to systems in order to implement the new requirements on impairment.

With this Standard effective from 1 January 2018 companies need to start evaluating the new Standard now if they have not done so already.

Transfers of Investment Property (Amendments to IAS 40)

In December 2016 the IASB published 'Transfers of Investment Property (Amendments to IAS 40)' which clarifies that transfers to, or from, investment property are required when, and only when, there is a change in use of property supported by evidence.

In addition to clarifying the principle above, the amendments also re-characterise the list of circumstances previously contained in IAS 40 'Investment Property'. This list was previously characterised as a definitive list of circumstances where it would be considered that there has been a change in use of a property. The amendments reposition the list as a non-exhaustive list of examples of evidence that a change in use has occurred. The IASB has also clarified that a change in management's intent, by itself, does not provide sufficient evidence that a change in use has occurred. Evidence of a change in use must be observable.

Transition

The amendments contain transitional provisions, the default being prospective application, however retrospective application is permitted, provided that it is possible without the use of hindsight.

Commercial significance

Number of entities affected

The amendments will impact entities that hold investment properties.

Impact on affected entities

These amendments could have a fairly significant impact if they result in a change in presentation of an entity's property.

'The amendments reposition the list of circumstances where a change in use is deemed to have occurred as a non-exhaustive list of examples of evidence that a change in use has occurred.'

Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (Amendments to IFRS 4)

In September 2016, the IASB published 'Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts' which makes narrow scope amendments to IFRS 4 'Insurance Contracts'. The IASB issued the amendments to address the temporary accounting consequences of the different effective dates of IFRS 9 'Financial Instruments' and the anticipated new insurance contracts Standard. The new insurance contracts Standard was subsequently finalised as IFRS 17 'Insurance Contracts' and will have an effective date of 1 January 2021. This means the mandatory effective date of the new insurance contracts Standard is after the 2018 effective date of IFRS 9.

As entities that issue insurance contracts will be affected by both IFRS 9 and the new insurance contracts Standard, there was considerable concern over the practical challenges of implementing these two significant accounting changes on different dates. Further concerns were raised over the potential for increased volatility in profit or loss if IFRS 9's new requirements for financial instruments come into force before the new insurance accounting rules.

To address these concerns while still fulfilling the needs of users of financial statements, the IASB has responded by amending IFRS 4 and introducing the:

- overlay approach – an option for all entities that issue insurance contracts to adjust profit or loss for eligible financial assets by removing any additional accounting volatility that may arise as a result of IFRS 9
- temporary exemption – an optional temporary exemption from applying IFRS 9 for entities whose activities are predominantly connected with insurance. These entities will be permitted to continue to apply the existing financial instrument requirements of IAS 39.

Overlay approach

The overlay approach aims to remove from profit or loss any additional volatility that may arise if IFRS 9 is applied together with IFRS 4. All entities would be permitted to apply it but only to certain assets (see below). Furthermore, the approach must be chosen on the initial adoption of IFRS 9.

Entities applying the overlay approach are required to apply IFRS 9 from its 1 January 2018 effective date. However they are permitted to reclassify from profit or loss to other comprehensive income an amount equal to the difference between:

- the amount reported in profit or loss when IFRS 9 is applied to the qualifying financial assets (see below); and
- the amount that would have been reported in profit or loss if IAS 39 were applied to those assets.

The amendments require the reclassification to be shown as a separate line item on the face of the statement of both profit or loss and other comprehensive income, with additional disclosures being given in order to enable users to understand it.

Only financial assets that meet both of the following criteria would qualify for the overlay approach:

- the financial assets are measured at fair value through profit or loss when applying IFRS 9 but would not have been so measured in their entirety when applying IAS 39
- the financial assets are designated by the entity as relating to insurance activities for the purposes of the overlay approach.

Temporary exemption

The temporary exemption is an option for entities whose activities are predominantly connected with insurance to defer the application of IFRS 9 until the earlier of:

- the application of the new insurance contracts Standard
- 1 January 2021.

(NB The effective date of the new insurance contracts Standard, IFRS 17, was subsequently finalised as 1 January 2021)

If an entity elects to use this temporary exemption, it will continue to apply IAS 39 during this period and will be required to provide some key disclosures to assist users of financial statements to make comparisons with entities applying IFRS 9.

Entities are eligible for this deferral approach only if they have activities that are predominantly connected with insurance when considering their activities as a whole. This should be considered at the reporting entity level and they must not have previously applied IFRS 9.

As eligibility is assessed at a reporting entity level, a separate assessment should be made for separate financial statements and consolidated groups. It is therefore possible for a group still to be eligible for the exemption even if there is a non-qualifying subsidiary (for its individual financial statements) within the group, or vice versa.

Predominance should be assessed by comparing the amount of an entity's insurance contract liabilities with the total amount of its liabilities.

Unlike the overlay approach, the temporary exemption will be applied to all, rather than some, financial assets of the limited population of entities that qualify for and elect to apply this approach.

Effective date

The amendments are effective as follows:

- the overlay approach is applied when entities first apply IFRS 9
- a temporary exemption from IFRS 9 is applied for accounting periods on or after 1 January 2018.

Commercial significance

Number of entities affected

The amendments will only impact entities that issue insurance contracts, and are affected by both IFRS 9 and the new insurance contracts Standard.

Impact on affected entities

These amendments will provide relief to considerable concern raised over the practical challenges of adopting two significant Standards on different dates.

'The IASB issued the amendments to address the temporary accounting consequences of the different effective dates of IFRS 9 'Financial Instruments' and the new insurance contracts Standard, IFRS 17.'

Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2)

In April 2016 the IASB published 'Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2)'. We describe the three changes made by the amendments in more detail below.

Effects of vesting conditions on the measurement of a cash-settled share-based payment

Prior to the publication of the amendments, IFRS did not specifically address the impact of vesting and non-vesting conditions on the measurement of the fair value of the liability incurred in a cash-settled share-based payment transaction. The amendments address this lack of guidance by clarifying that these conditions should be accounted for consistently with equity-settled share-based payments in IFRS 2.

This means that the fair value of cash-settled awards is measured ignoring service and non-market performance conditions, but taking into account market and non-vesting conditions. This applies when estimating the fair value of the cash-settled share-based payment granted and when re-measuring the fair value at the end of each reporting period and at the date of settlement. The cumulative expense recognised is adjusted based on the number of awards that is ultimately expected to vest (the so-called 'true-up' mechanism).

Classification of share-based payment transactions with a net settlement feature for withholding tax obligations

The second amendment addresses the accounting for a particular type of share-based payment scheme. Many jurisdictions require entities to withhold an amount for an employee's tax obligation associated with share-based payments and transfer the amount (normally in cash) to the taxation authorities. As a result the terms of some schemes require the entity to deduct the number of equity instruments needed to equal the monetary value of the employee's tax obligation from the number of equity instruments that would otherwise be issued to the employee (referred to as a 'net settlement' feature).

The amendment stems from a request for guidance on whether the portion of the share-based payment that is withheld should be classified as cash-settled or equity-settled, where the entire share-based payment would otherwise have been classified as an equity-settled share-based payment transaction.

The amendment adds guidance to IFRS 2 to the effect that a scheme with this type of compulsory net-settlement feature would be classified as equity-settled in its entirety (assuming it would be so classified without the net settlement feature). Where necessary, an entity shall disclose an estimate of the amount that it expects to transfer to the tax authority to settle the employee's tax obligation.

Accounting for a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled

The third amendment addresses the accounting for a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled. Such situations were not previously addressed by IFRS 2, so the IASB has amended the Standard so that:

- the share-based payment transaction is measured by reference to the modification-date fair value of the equity instruments granted as a result of the modification
- the liability recognised in respect of the original cash-settled share-based payment is derecognised upon the modification, and the equity-settled share-based payment is recognised (in equity) to the extent that the services have been rendered up to the modification date
- the difference between the carrying amount of the liability as at the modification date and the amount recognised in equity at the same date is recorded in profit or loss immediately.

This guidance also applies to a situation in which the modification changes the vesting period of the share-based payment transaction. The amendments also provide guidance for a grant of equity instruments that has been identified as a replacement for a cancelled cash-settled share-based payment.

Commercial significance

Number of entities affected

The amendments will only impact entities with share based payments transactions.

Impact on affected entities

Some of the changes could have a fairly significant impact depending on the type of shared based payment transaction the entity has entered into.

The IASB issued changes to IFRS 2 covering the following matters:

- **the accounting for the effects of vesting conditions on the measurement of a cash-settled share-based payment**
- **the classification of share-based payment transactions with a net settlement feature for withholding tax obligations**
- **the accounting for a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled.**

IFRIC 22 Foreign Currency Transactions and Advance Consideration

In December 2016, the IFRS Interpretations Committee (IFRIC) issued 'IFRIC 22 Foreign Currency Transactions and Advance Consideration'. It looks at what exchange rate to use for translation when payments are made or received in advance of the related asset, expense or income.

Background

Although IAS 21 'The Effects of Changes in Foreign Exchange Rates' sets out requirements about which exchange rate to use when recording a foreign currency transaction on initial recognition in an entity's functional currency, IFRIC had observed diversity in practice in circumstances in which an entity recognises a non-monetary liability arising from advance consideration. The diversity resulted from the fact that some entities were recognising revenue using the spot exchange rate at the date of the receipt of the advance consideration while others were using the spot exchange rate at the date that revenue was recognised.

In carrying out their analysis of the issue, IFRIC noted that the issue was not restricted to just revenue transactions. For example, the same issue arises for transactions such as a sale of property, plant and equipment or the purchase of services when consideration is denominated in a foreign currency and is paid or received in advance.

Matters addressed

IFRIC 22 addresses this issue by clarifying that the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration.

If there are multiple payments or receipts in advance, the entity shall determine a date of the transaction for each payment or receipt of advance consideration.

Illustrative examples in the Interpretation demonstrate the application of this consensus.

Transition

On initial application, entities have the choice of applying the Interpretation either retrospectively or, alternatively, prospectively to all assets, expenses and income in the scope of the Interpretation initially recognised on or after

i the beginning of the reporting period in which the entity first applies the Interpretation; or
ii the beginning of a prior reporting period presented as comparative information in the financial statements of the reporting period in which the entity first applies the Interpretation.

Commercial significance

Number of entities affected

The Interpretation has a narrow scope. It will only impact transactions that have been settled in advance and in foreign currency.

Impact on affected entities

The impact of this Interpretation could be significant depending on how the exchange rate has fluctuated in the period between the advance and receipt of the related asset.

Effective from 1 January 2019

The Standards discussed on pages 40 to 48 are effective for accounting periods beginning on or after 1 January 2019.

It may be possible to apply these changes early depending on local legislation and the requirements of the particular change in concern. The Standards are:

- IFRS 16 Leases
- IFRS 9 Prepayment Features with Negative Compensation (Amendments to IFRS 9)
- IFRIC 23 Uncertainty over Income Tax Treatments
- IAS 28 Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28)

IFRS 16 Leases

IFRS 16 is the result of the IASB's long-running project to overhaul lease accounting, representing the first major change to lease accounting in over 30 years. The new Standard replaces IAS 17 'Leases' along with three Interpretations (IFRIC 4 'Determining whether an Arrangement contains a Lease', SIC 15 'Operating Leases-Incentives' and SIC 27 'Evaluating the Substance of Transactions Involving the Legal Form of a Lease').

IFRS 16 will require lessees to account for leases 'on-balance sheet' by recognising a 'right-of-use' asset and a lease liability. For many businesses, however, exemptions for short-term leases and leases of low value assets will greatly reduce the impact.

IFRS 16 also:

- changes the definition of a lease
- sets requirements on how to account for the asset and liability, including complexities such as non-lease elements, variable lease payments and option periods
- changes the accounting for sale and leaseback arrangements
- largely retains IAS 17's approach to lessor accounting
- introduces new disclosure requirements.

The table summarises the main changes at a glance:

IFRS 16 Leases at a glance

Issue	Other factors to consider
Who is affected?	• entities that lease assets as a lessee or a lessor
What's the impact on lessees?	• all leases will be accounted for 'on-balance sheet', other than short-term and low value asset leases • lease expense will typically be 'front-loaded' • lease liability will exclude: – option periods unless exercise is reasonably certain – contingent payments that are linked to sales/usage and future changes in an index/rate
What's the impact on lessors?	• only minor changes from the current Standard – IAS 17
Are there other changes?	• a new definition of a lease will result in some arrangements previously classified as leases ceasing to be so, and vice versa • new guidance on sale and leaseback accounting • new and different disclosures
When are the changes effective?	• annual periods beginning on or after 1 January 2019 • various transition reliefs • early application is permitted if IFRS 15 'Revenue from Contracts with Customers' is applied.

Scope

IFRS 16 applies to all leases for both the lessee and lessor, except for a few scope exclusions. These exclusions, some of which are similar to IAS 17's, are summarised in the table:

Scope exclusions from IFRS 16

Scope exclusion	Standard to apply
Leases to explore for or use minerals, oil, natural gas and similar non-regenerative resources	None specified. Depending on the circumstances IFRS 6 'Exploration for and Evaluation of Mineral Resources' or IAS 38 'Intangible Assets' might apply
Leases of biological assets in scope of IAS 41 held by a lessee	IAS 41 'Agriculture'
Service concession arrangements in scope of IFRIC 12	IFRIC 12 'Service Concession Arrangements'
Licences of intellectual property granted by a lessor in scope of IFRS 15	IFRS 15 'Revenue from Contracts with Customers'
Rights held under licensing agreements in scope of IAS 38 for items such as motion picture films, video recordings, plays, manuscripts, patents and copyrights*	IAS 38 'Intangible Assets'

* for leases of other types of intangible asset a lessee is permitted to apply IFRS 16 but not required to do so

Definition of a lease

Because the new lease accounting model brings many more leases 'on-balance sheet', the evaluation of whether a contract is (or contains) a lease becomes even more important than it is today.

Under IFRS 16 a lease is defined as: 'a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration'. A contract is, or contains, a lease if:

- fulfilment of the contract depends on the use of an identified asset; and
- the contract conveys the right to control the use of the identified asset for a period of time in exchange for consideration.

In practice, the main impact of IFRS 16's new definition and supporting guidance is likely to be on contracts that are not in the legal form of a lease but involve the use of a specific asset and may therefore contain a lease.

Lessee accounting

Subject to the optional accounting simplifications discussed below, a lessee will be required to recognise its leases on the balance sheet. This involves recognising:

- a 'right-of-use' asset; and
- a lease liability.

The lease liability is initially measured as the present value of future lease payments. For this purpose, lease payments include fixed, non-cancellable payments for lease elements, amounts due under residual value guarantees, certain types of contingent payments and amounts due during optional periods to the extent that extension is 'reasonably certain'.

In subsequent periods, the right-of-use asset is accounted for similarly to a purchased asset and depreciated or amortised. The lease liability is accounted for similarly to a financial liability using the effective interest method.

‘IFRS 16 will require lessees to account for leases ‘on-balance sheet’ by recognising a ‘righ-of-use-asset’ and a lease liability.’

Optional accounting simplifications

IFRS 16 provides important reliefs or exemptions for:

- short-term leases (a lease is short-term if it has a lease term of 12 months or less at the commencement date)
- low-value asset leases (the assessment of value is based on the absolute value of the leased asset when new and therefore requires judgement. In the Basis for Conclusions which accompanies the Standard, however, the IASB notes that they had in mind leases of assets with a value when new of around US $5,000 or less).

If these exemptions are used, the accounting is similar to operating lease accounting under the current Standard IAS 17 ‘Leases’. Lease payments are recognised as an expense on a straight-line basis over the lease term or another systematic basis (if more representative of the pattern of the lessee’s benefit).

Lessor accounting

IFRS 16’s requirements for lessor accounting are similar to IAS 17’s. In particular:

- the distinction between finance and operating leases is retained
- the definitions of each type of lease, and the supporting indicators of a finance lease, are substantially the same as IAS 17’s
- the basic accounting mechanics are also similar, but with some different or more explicit guidance in a few areas. These include variable payments; sub-leases; lease modifications; the treatment of initial direct costs; and lessor disclosures.

Sale and leaseback accounting

IFRS 16 makes significant changes to sale and leaseback accounting.

If an entity (the seller-lessee) transfers an asset to another entity (the buyer-lessor) and leases that asset back from the buyer-lessor, both the seller-lessee and the buyer-lessor determine whether the transfer qualifies as a sale. This determination is based on the requirements for satisfying a performance obligation in IFRS 15.

The Grant Thornton International Ltd IFRS team has published a special edition of IFRS News on IFRS 16 ‘Leases’. The special edition explains the key features of the new Standard and provides practical insights into its application and impact. To obtain your copy, please get in touch with the IFRS contact in your local Grant Thornton office or go to **www.grantthornton.global/en/insights/articles/ifrs-news-special-edition-on-ifrs-16/**.

Effective date and transition

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted for entities that apply IFRS 15 'Revenue from Contracts with Customers' at or before the date of initial application of this standard.

In terms of transition, IFRS 16 provides lessees with a choice between two broad methods:

- full retrospective application – with restatement of comparative information in accordance with IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors'
- partial retrospective application – without restating comparatives. Under this approach the cumulative effect of initially applying IFRS 16 is recognised as an adjustment to equity at the date of initial application. If a lessee chooses this method, a number of more specific transition requirements and optional reliefs also apply.

Commercial significance

Number of entities affected

IFRS 16 will affect most companies that report under IFRS and are involved in leasing.

Impact on affected entities

IFRS 16 will have a substantial impact on the financial statements of lessees of property and high value equipment.

Bringing all leases on-balance sheet is controversial. The IASB has therefore made compromises to reduce the controversy, in particular exemptions for short-term and low value asset leases. As a result businesses that lease only assets such as printers and laptops will face only a limited impact. For businesses that lease 'big-ticket' assets, such as property and high-value equipment, this will however be a major change. Whatever your views on the new Standard, businesses would be well-advised to start an impact analysis sooner rather than later.

'The new Standard replaces IAS 17 'Leases' along with three Interpretations (IFRIC 4 'Determining whether an Arrangement contains a Lease', SIC 15 'Operating Leases-Incentives' and SIC 27 'Evaluating the Substance of Transactions Involving the Legal Form of a Lease').'

Prepayment Features with Negative Compensation (Amendments to IFRS 9)

In October 2017, the IASB published 'Prepayment Features with Negative Compensation (Amendments to IFRS 9)'. The amendments allow companies to measure particular prepayable financial assets with negative compensation at amortised cost or at fair value through other comprehensive income – instead of measuring those assets at fair value through profit or loss.

The amendments also include clarifications to the modification or exchange of a financial liability that does not result in derecognition.

After IFRS 9 was issued, the IFRS Interpretations Committee received a request on how to apply the IFRS 9 requirements for recognising and measuring financial instruments to certain debt instruments where the borrower is permitted to prepay the instrument at an amount that could be less than the unpaid principal and interest owed. Such a prepayment feature is often referred to as including potential 'negative compensation'.

Under the then existing requirements of IFRS 9, a company would have measured a financial asset with negative compensation at fair value through profit or loss as the 'negative compensation' feature would have been viewed as introducing potential cash flows that were not solely payments of principal and interest.

However, to improve the usefulness of the information provided, in particular on the instrument's effective interest rate and expected credit losses, the Board issued the amendments so that entities will now be able to measure some prepayable financial assets with negative compensation at amortised cost.

Another issue – Modification or exchange of a financial liability that does not result in derecognition

Concurrent with the amendment to IFRS 9 for prepayment features with negative compensation, the IASB discussed the accounting for a modification or exchange of a financial liability measured at amortised cost that does not result in the derecognition of the financial liability. Specifically, the IASB considered whether, when applying IFRS 9, an entity should recognise any adjustment to the amortised cost of the financial liability arising from such a modification or exchange in profit or loss at the date of the modification or exchange.

The IASB concluded that no change needed to be made to the Standard itself but has clarified the existing position by adding text to the Basis for Conclusions on IFRS 9 in these amendments.

The change to the accounting for a modification or exchange of a financial liability that does not result in derecognition is effective from 2018 as this text merely clarifies the existing Standard as opposed to amending it.

To summarise, the IASB believes that IFRS 9 provides an adequate basis for an entity to account for modifications and exchanges of financial liabilities that do not result in derecognition. The text which has been added in the amendments highlights that the requirements in IFRS 9 for adjusting the amortised cost of a financial liability when a modification (or exchange) does not result in the derecognition of the financial liability are consistent with the requirements for adjusting the gross carrying amount of a financial asset when a modification does not result in the derecognition of the financial asset. Those requirements state that when contractual cash flows of a financial asset are renegotiated or otherwise modified and the renegotiation or modification does not result in the derecognition of that financial asset, an entity shall recalculate the gross carrying amount of the financial asset and shall recognise a modification gain or loss in profit or loss.

‘The change to the accounting for a modification or exchange of a financial liability that does not result in derecognition is effective from 2018 as this text merely clarifies the existing Standard as opposed to amending it.’

Ironically, the ‘other issue’ clarifying the accounting for a modification or exchange of a financial liability that does not result in derecognition may well result in the most significant change in accounting as modification gains and losses will now be recognised immediately in profit or loss in such situations.

‘Prepayment Features with Negative Compensation – Amendments to IFRS 9’ is effective for annual periods beginning on or after 1 January 2019, with earlier application permitted. However the text which has been added to clarify the accounting for a modification or exchange of a financial liability that does not result in derecognition is effective for annual periods beginning on or after 1 January 2018 (ie the effective date of IFRS 9 itself) as this text merely clarifies the existing Standard rather than amending it.

Commercial significance

Number of entities affected

The amendments will have most relevance to financial institutions who hold these types of financial instruments, although it is possible that some other entities will be affected.

Impact on affected entities

The ‘Prepayment Features with Negative Compensation’ is an important one as otherwise financial institutions would have had to account for what are essentially debt-type financial assets at fair value as opposed to amortised cost, which may not have provided the most useful information to users.

The ‘other issue’ included in these amendments could have an even more significant impact and must be applied at the same time IFRS 9 is applied.

‘Ironically, the ‘other issue’ clarifying the accounting for a modification or exchange of a financial liability that does not result in derecognition may well result in the most significant change in accounting as modification gains and losses will now be recognised immediately in profit or loss in such situations.’

IFRIC 23 Uncertainty over Income Tax Treatments

The IFRS Interpretations Committee (IFRIC) has published a new Interpretation IFRIC 23 'Uncertainty over Income Tax Treatments', specifying how entities should reflect uncertainty in accounting for income taxes.

IAS 12 'Income Taxes' specifies how to account for current and deferred tax but not how to reflect the effects of uncertainty. IFRIC 23 addresses this previous lack of guidance.

IFRIC 23 addresses uncertainty over how tax treatments should affect the accounting for income taxes. IFRIC had observed that there was diversity in practice for various issues on the recognition and measurement of a tax liability or asset in circumstances where there is uncertainty in the application of the tax law in concern. The table illustrates the main issues that are addressed by the Interpretation.

Main issues addressed by IFRIC 23

Issue	Proposal
When and how the effect of uncertainty over income tax treatments should be included in the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates	• an entity is required to consider whether it is probable that a taxation authority will accept an uncertain tax treatment • if it is, the entity would determine taxable profit (tax loss), tax bases, unused tax losses, unused tax credits or tax rates consistently with the tax treatment used or planned to be used in its income tax filings • if the entity concludes that it is not probable that the taxation authority will accept an uncertain tax treatment, it uses either the most likely amount or the expected value in determining taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates (depending on which method is expected to better predict the resolution of the uncertainty).
The assumptions that an entity should make about the examination of tax treatments by taxation authorities	• an entity is required to assume that a tax authority will examine amounts it has a right to examine and will have full knowledge of all relevant information when making those examinations.
Changes in facts and circumstances	• entities are also required to reassess their judgements and estimates if facts and circumstances change (eg upon reaching a time limit where the taxation authority is no longer able to challenge an entity's tax treatments) or as a result of new information that affects the judgement or estimate becoming available.
Whether uncertain tax treatments should be considered separately	• entities would be required to use judgement to determine whether each uncertain tax treatment should be considered separately, or whether some uncertain tax treatments should be considered together. In determining the approach to be followed, entities shall consider which approach better predicts the resolution of the uncertainty.

Main issues addressed by IFRIC 23

Issue	Proposal
Disclosure	• when addressing uncertainty over income tax treatments, entities are required to disclose judgements, assumptions and estimates made in accordance with the normal requirements of IAS 1 'Presentation of Financial Statements' • in addition, if an entity concludes it is probable that a taxation authority will accept an uncertain tax treatment, it should consider whether to disclose the potential effect of the uncertainty as a tax-related contingency under IAS 12.88.
Transition	• entities shall apply IFRIC 23: – retrospectively by applying IAS 8, if that is possible without the use of hindsight; or – retrospectively with the cumulative effect of initially applying the effect of the changes being recognised in the opening balance of retained earnings (or another component of equity) in the period of first application, without adjusting comparative information.

Commercial significance

This Interpretation is applicable to any entity where there is uncertainty over whether a tax treatment will be accepted or disputed by the tax authorities. It includes all tax items (taxable profits and losses, tax bases, unused tax bases, unused tax credits and tax rates), and therefore could have a widespread impact.

If an entity concludes there is uncertainty over the tax treatment of an item, it must account for the uncertain treatment accordingly. It could therefore have a significant impact on some entities depending on the item.

'IFRIC had observed that there was diversity in practice for various issues on the recognition and measurement of a tax liability or asset in circumstances where there is uncertainty in the application of the tax law in concern.'

Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28)

In October 2017 the IASB published 'Investments in Associates and Joint Ventures (Amendments to IAS 28)' clarifying that companies account for long-term interests in an associate or joint venture – to which the equity method is not applied – using IFRS 9 'Financial Instruments'. This includes long-term interests that, in substance, form part of the entity's net investment in an associate or joint venture.

IFRS 9 excludes interests in associates and joint ventures accounted for in accordance with IAS 28. However, some stakeholders expressed an opinion that it was not clear whether that exclusion applies only to interests in associates and joint ventures to which the equity method is applied or whether it applies to all interests in associates and joint ventures.

In the amendments, the IASB clarifies that the exclusion in IFRS 9 applies only to interests accounted for using the equity method. Therefore, a company applies IFRS 9 to other interests in associates and joint ventures, including long-term interests to which the equity method is not applied and which, in substance, form part of the net investment in those associates and joint ventures.

The IASB has also published an example that illustrates how entities apply the requirements in IFRS 9 and IAS 28 to long-term interests in an associate or joint venture.

Commercial significance

Number of entities affected

The amendments will impact entities that have interests in associates and joint ventures to which the equity method is applied.

Impact on affected entities

The amendment is significant as it means holdings in debt-type instruments issued by an associate or joint venture will be subject to IFRS 9's impairment requirements.

'IFRS 9 excludes interests in associates and joint ventures accounted for in accordance with IAS 28.'

Effective from 1 January 2021

The Standard discussed on pages 50 to 52 is effective for accounting periods beginning on or after 1 January 2021.

It may be possible to apply the changes early depending on local legislation and the requirements of the particular change in concern. The Standard is:

- IFRS 17 Insurance Contracts

IFRS 17 Insurance Contracts

After twenty years of development, the IASB has published IFRS 17 'Insurance Contracts'. This represents a record in terms of development period, the lengthy completion period reflecting a number of factors including:

- very diverse local practices for insurance accounting
- a huge range of jurisdiction-specific products, tax implications and regulations that had to be captured by a uniform measurement model
- the need for alignment with other Standards that have been recently published by the IASB, such as IFRS 9 'Financial Instruments' and IFRS 15 'Revenue from Contracts with Customers', and to some degree the work of other standard setters.

The new Standard replaces IFRS 4 'Insurance Contracts' which was published in 2004. IFRS 4 was designed to be an interim Standard and therefore allowed entities issuing insurance contracts to carry on accounting for them using policies that had been developed under their previous local accounting standards. This meant that entities continued to use a multitude of different approaches for accounting for insurance contracts, making it difficult to compare and contrast the financial performance of otherwise similar entities.

IFRS 17 solves the comparison problems created by IFRS 4 by requiring all insurance contracts to be accounted for in a consistent manner, benefiting both investors and insurance companies. We briefly discuss some of the areas covered by the new Standard below:

Scope

IFRS 17 applies to all insurance contracts that an entity issues (including those for reinsurance); reinsurance contracts it holds; and investment contracts with a discretionary participation feature, provided the entity also issues insurance contracts.

IFRS 17 defines an insurance contract as one under which one party (the issuer) accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder.

This definition is similar to that in IFRS 4. In addition, IFRS 17 provides guidance on how to assess the significance of insurance risk based on the possibility of a loss on a present value basis (rather than nominal), and how to evaluate changes in the level of insurance risk.

Measurement

IFRS 17 requires an entity that issues insurance contracts to report them on the balance sheet as the total of:

a the fulfilment cash flows – the current estimates of amounts that the insurer expects to collect from premiums and pay out for claims, benefits and expenses, including an adjustment for the timing and risk of those cash flows and

b the contractual service margin – the expected profit for providing future insurance coverage (ie unearned profit).

The measurement of the fulfilment cash flows reflects the current value of any interest rate guarantees and financial options included in the insurance contracts.

To better reflect changes in insurance obligations and risks, IFRS 17 requires an entity to update the fulfilment cash flows at each reporting date, using current estimates that are consistent with relevant market information. This means that insurance obligations will be accounted for using current values instead of historical cost, ending the practice of using data from when a policy was taken out.

Current discount rates are also required to be used. These will reflect the characteristics of the cash flows arising from the insurance contract liabilities, a change from the previous situation where many entities used discount rates based on the expected return on assets backing the insurance contract liabilities.

Revenue is no longer equal to written premiums but to the change in the contract liability covered by consideration.

> ‘IFRS 17 solves the comparison problems created by IFRS 4 by requiring all insurance contracts to be accounted for in a consistent manner, benefiting both investors and insurance companies.’

Insurance performance

IFRS 17 requires an entity to provide information that distinguishes two ways insurers earn profits from insurance contracts:

a the insurance service result, which depicts the profit earned from providing insurance coverage

b the financial result, which captures:

- investment income from managing financial assets
- insurance finance expenses from insurance obligations – the effects of discount rates and other financial variables on the value of insurance obligations.

When applying IFRS 17, changes in the estimates of the expected premiums and payments that relate to future insurance coverage will adjust the expected profit – ie the contractual service margin for a group of insurance contracts will be increased or decreased by the effect of those changes.

The effect of such changes in estimates will then be recognised in profit or loss over the remaining coverage period as the contractual service margin is earned by providing insurance coverage.

Onerous contracts

To make differences in profitability among insurance contracts visible, IFRS 17 requires an entity to distinguish groups of contracts expected to be loss-making from other contracts.

Companies should first identify portfolios of insurance contracts that are subject to similar risks and managed together. Once an entity has identified portfolios of contracts, it divides each portfolio into groups considering differences in the expected profitability of the contracts.

If the amounts that the insurer expects to pay out on a contract in the form of claims, benefits and expenses exceed the amounts that the insurer expects to collect from premiums, either at the inception of the contracts or subsequently, the contracts are loss making and the difference will be recognised immediately in profit or loss.

Reinsurance contracts

A separate measurement model applies to reinsurance contracts held. Modifications are allowed for qualifying short-term contracts and participating contracts.

Presentation

Statement of financial position

The statement of financial position should present in separate captions the assets and liabilities arising under insurance contracts issued and reinsurance contracts held.

In contrast to practices existing under various local GAAPs, entities should adopt a grossed-up presentation where contracts, which are assets, are not netted off against contracts, which are liabilities and vice versa. IFRS 17 does not mandate a layout for the statement of financial position. The reporting entities should follow the general requirements of IAS 1 ‘Presentation of Financial Statements’ but need to ensure that certain captions are presented as a minimum on the face of the statement.

Statement of financial performance – measurement of revenue and expenses

IFRS 17 does not mandate a layout for the statement of financial performance. Reporting entities should follow the principle requirements of IAS 1 and the measurement rules of IFRS 17, which require that revenue and incurred expenses presented in profit or loss exclude any investment components.

Measurement of insurance contract revenue

Revenue recognition is an area where IFRS 17 principles represent a significant change from practices previously followed in various local GAAPs. Previously revenue was reported by reference to premium cash received or receivable.

Under IFRS 17, revenue represents the total change in the liability for remaining coverage that relates to coverage and services during the period for which the entity expects to receive consideration.

Supporting materials issued by the IASB

Following publication of IFRS 17, the IASB has announced various initiatives to support entities with the adoption of the Standard, including a dedicated implementation support page for IFRS 17 and a webinar on the Standard.

The IASB also plans to establish a Transition Resource Group which will discuss questions from stakeholders about the new accounting requirements.

Disclosure

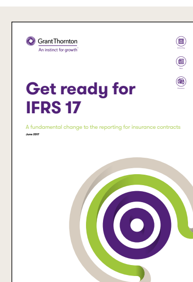
The objective of the disclosure requirements of IFRS 17 is to disclose information which allows the users of financial statements to assess the effect that contracts within the scope of the Standard have on the entity's financial position, financial performance and cash flows. Entities should provide quantitative and qualitative information about amounts recognised in the financial statements, significant judgements (and changes thereof), and the nature and extent of risks arising from contracts within the scope of the Standard.

Reporting entities are required to follow IAS 1's requirements on materiality and aggregation when deciding what aggregation bases are appropriate for disclosure. The type of contract, geographical area or reportable segment as defined in IFRS 8 'Operating Segments' are all examples suggested but not mandated by the Standard.

Effective date and transition

IFRS 17 has an effective date of 1 January 2021 but may be applied earlier provided the entity applies IFRS 9 'Financial Instruments' and IFRS 15 'Revenue from Contracts with Customers' at or before the date of initial application of the Standard (and subject to any considerations imposed by local legislation).

In 2016, the IASB made narrow scope amendments to IFRS 4 'Insurance Contracts' to provide temporary accounting solutions for the practical challenges of implementing IFRS 9 before IFRS 17. Refer to page 34 for details of these amendments.



The Grant Thornton International Ltd IFRS Team has issued a detailed publication entitled 'Get Ready for IFRS 17 – a fundamental change to the reporting for insurance contracts'. This guide is designed to get you ready for this major new Standard. It explains IFRS 17's key features and provides insights into their application and impact. To obtain your copy, please get in touch with the IFRS contact in your local Grant Thornton office or go to **www.grantthornton.global/globalassets/1.-member-firms/global/insights/article-pdfs/2017/get-ready-for-ifrs-17---a-fundamental-change-to-the-reporting-for-insurance-contracts.pdf**.

Commercial significance

Number of entities affected

IFRS 17 is a Standard about insurance contracts, not a Standard for the insurance industry. While insurance companies will be most affected, its effect will also be felt beyond the entities authorised to carry out regulated (re) insurance activities in a jurisdiction.

Impact on affected entities

IFRS 17 fundamentally changes the accounting for insurance contracts. It will have a substantial impact on the financial statements of those with insurance contracts. Presently there is a huge diversity in the way insurance contracts are accounted for, IFRS 17 is set to uniform these accounting practices and will transform data, people, technology solutions and investor relations. Implementation costs are likely to be high as entities get to grips with the new Standard.

No effective date

The Practice Statement discussed on pages 54 to 55 can be applied from its date of application, 14 September 2017. The Practice Statement is not a Standard and its application is not mandatory or required in order to state compliance with IFRS. The Practice Statement is:

- IFRS Practice Statement 2: Making Materiality Judgements

The Standard discussed on pages 56 to 57 was due to become effective for accounting periods beginning on or after 1 January 2016; however its effective date has been postponed indefinitely.

Entities are still permitted to adopt the Standard and therefore it has been included within this publication. The Standard is:

- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28)

IFRS Practice Statement 2: Making Material Judgements

In September 2017, the IASB published its second IFRS Practice Statement 'Making Materiality Judgements' (the 'Practice Statement'). The Practice Statement encourages entities to apply judgement so that financial statements focus on the information that is useful to investors rather than trying to comply with an IFRS 'checklist'. This non-authoritative guidance, which can be applied immediately, marks the next step in the IASB's ongoing 'Disclosure Initiative'.

The concept of materiality is important in the preparation of financial statements, because it helps companies determine which information to include in and exclude from their reports. The 'Conceptual Framework for Financial Reporting' discusses materiality as follows[1]:

- Information is material if omitting it or misstating it could influence decisions that users make on the basis of financial information about a specific reporting entity. In other words, materiality is an entity-specific aspect of relevance based on the nature or magnitude, or both, of the items to which the information relates in the context of an individual entity's financial report. Consequently, the Board cannot specify a uniform quantitative threshold for materiality or predetermine what could be material in a particular situation.

However, management is often faced with uncertainty in applying that concept. Such uncertainty is encountered when making decisions about recognition and measurement but most of all when deciding what information to disclose in the notes and how to present that information.

This uncertainty has led to some entities using the disclosure requirements in IFRS Standards as a checklist rather than judging which information would be most useful to investors and other stakeholders.

In publishing the Practice Statement, the IASB is providing support to companies when making materiality judgements and in doing so hopes to encourage behavioural change.

The Practice Statement gathers all the materiality requirements in IFRS Standards and adds practical guidance and examples entities may find helpful in deciding whether information is material.

The Practice Statement sets out a four-step process to making decisions on materiality:

Four-step process to making decisions on materiality

Steps	Action
Step 1 – Identify	• Identify information that has the potential to be material.
Step 2 – Assess	• Assess whether the information identified in Step 1 is, in fact, material.
Step 3 – Organise	• Organise the information within the draft financial statements in a way that communicates the information clearly and concisely to primary users.
Step 4 – Review	• Review the draft financial statements to determine whether all material information has been identified and materiality considered from a wide perspective and in aggregate, on the basis of the complete set of financial statements.

[1] IAS 1 'Presentation of Financial Statements' and IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors' provide definitions which are similar in nature to this.

‘The Practice Statement encourages entities to apply judgement so that financial statements focus on the information that is useful to investors rather than trying to comply with an IFRS ‘checklist’.’

The Practice Statement also gives guidance on specific topics such as:

- prior-period information
- errors
- information about covenants
- materiality judgements for interim reporting.

The Practice Statement is not a Standard and its application is not mandatory or required in order to state compliance with IFRS. It does not change existing requirements or introduce new ones. Instead, it aims to provide guidance to assist management in applying the concept of materiality when preparing their financial statements. The guidance in the Practice Statement can be applied from its date of publication, 14 September 2017.

Commercial significance

Number of entities affected

Many companies face uncertainty in applying the concept of materiality in the preparation of financial statements so this Practice Statement will be useful to the majority of companies.

Impact on affected entities

The Practice Statement provides principle based guidance which, if applied, may or may not impact the materiality decision. The Practice Statement provides non-mandatory guidance, which does not have the same authority as an IFRS.

Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28)

The Amendments to IFRS 10 and IAS 28 address an acknowledged inconsistency between IFRS 10 'Consolidated Financial Statements' and IAS 28 (2011) 'Investments in Associates'. This relates to accounting for transactions in which a parent entity loses control of a subsidiary by contributing it to an associate or joint venture.

The inconsistency stemmed originally from a conflict between the requirements of IAS 27 'Consolidated and Separate Financial Statements (Revised 2008)' and SIC-13 'Jointly Controlled Entities – Non-Monetary Contributions by Venturers'. While IAS 27 required the full gain or loss to be recognised on the loss of control of a subsidiary, SIC-13 required a partial gain or loss recognition in transactions between an investor and its associate or joint venture. Although IFRS 10 supersedes IAS 27, and IAS 28 (2011) supersedes both IAS 28 and SIC-13, the conflict remained.

The amendments alter IFRS 10 so that:

- the current requirements for the partial gain or loss recognition for transactions between an investor and its associate or joint venture only apply to the gain or loss resulting from the sale or contribution of assets that do not constitute a business, as defined in IFRS 3
- the gain or loss from the sale or contribution of assets that constitute a business between an investor and its associate or joint venture is recognised in full.

Corresponding amendments have been made to IAS 28 (2011) to reflect these changes. In addition IAS 28 (2011) has been amended to clarify that when determining whether assets that are sold or contributed constitute a business, an entity shall consider whether the sale or contribution of those assets is part of multiple arrangements that should be accounted for as a single transaction.

Postponement of the effective date

The 2014 amendments were due to become effective for accounting periods beginning on or after 1 January 2016. A number of questions were raised over the application of the amendments however such as how the transfer of assets would be recognised if the investor receives both assets and an equity interest, and how other requirements of IAS 28 interact with the changes made to IFRS 10. In deliberating these issues, the IASB decided that it would be better to address them as part of the research project on the equity method rather than make changes now.

In December 2015, the IASB issued 'Effective Date of Amendments to IFRS 10 and IAS 28', which therefore defers indefinitely the mandatory effective date of the 2014 amendments. The underlying issues will instead be addressed when the IASB issues any amendments resulting from its research project on equity method of accounting. Entities are still permitted to apply the 2014 amendments as the IASB does not wish to prohibit the application of better accounting. Any proposal to insert a new effective date will be exposed for public comment.

Point of view

We agree with the proposal to defer the effective date of the 2014 amendments. We believe it does not make sense to require entities to change the way they apply IAS 28 now if further amendments are likely to arise from the IASB's research project on the equity method of accounting in the near future.

Commercial significance

Number of entities affected

The scope of the amendments is narrow in nature.

Impact on affected entities

The amendments offer a pragmatic solution to a well-known conflict between IFRS 10 and IAS 28.

'The Amendments to IFRS 10 and IAS 28 address an acknowledged inconsistency between IFRS 10 'Consolidated Financial Statements' and IAS 28 (2011) 'Investments in Associates'. They can still be applied even though the effective date of the amendments has been deferred indefinitely.'

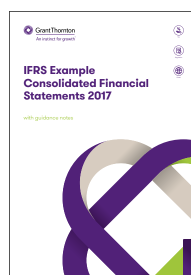
Grant Thornton's IFRS Publications

As well as the publications mentioned within the body of this publication, we also have a number of other publications including:

Example Interim Consolidated Financial Statements 2016

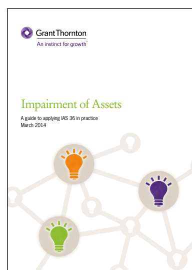
This publication illustrates the interim consolidated financial statements of a company that is an existing preparer of IFRS and produces half-yearly interim reports in accordance with IAS 34 'Interim Financial Reporting' at 30 June 2016. You can access this publication at **www.grantthornton.global/en/insights/articles/interim-consolidated-financial-statements-2016/**.

Reporting under IFRS – Example consolidated financial statements 2017



A set of illustrative consolidated financial statements for existing preparers of IFRS. The latest version of this publication has been reviewed and updated to reflect changes in IFRSs that are effective for annual periods ending 31 December 2017. You can access this publication at **www.grantthornton.global/en/insights/articles/example-financial-statements-2017/.**

Impairment of Assets: A guide to applying IAS 36 in practice

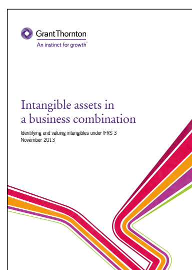


This publication summarises the overall objectives and requirements of IAS 36 'Impairment of Assets', provides a step-by-step guide to performing an impairment assessment and offers insights on best practices to address practical application issues. You can access this publication at **www.grantthornton.global/en/insights/articles/Applying-IAS-36-in-practice/**.

Under control? A practical guide to applying IFRS 10 consolidated financial statements

This publication aims to assist management in understanding the requirements of IFRS 10 'Consolidated Financial Statements' on control and consolidation as well as identifying and addressing the key practical application issues and judgements. You can access this publication at **www.grantthornton.global/en/insights/articles/under-control-applying-ifrs-10/**.

Intangible assets in a business combination – identifying and valuing intangibles under IFRS 3



This publication provides an overview of IFRS 3 'Business Combinations'. In addition, it includes practical guidance on the detection of intangible assets in a business combination and discusses the common methods used in practice to estimate their fair value. You can access this publication at **www.grantthornton.global/en/insights/articles/Valuing-intangibles-under-IFRS3/**.

IFRS News: Special edition news on the IFRS for SMEs

The IFRS for SMEs is a self-contained standard, based on full IFRS but simplified to meet the needs of the entities within its scope. In June 2015, the IASB issued amendments to the IFRS for SMEs. This special edition newsletter tells you more about these amendments and the standard in general. You can access this publication at **www.grantthornton.global/en/insights/articles/the-ifrs-for-smes/**.

IFRS Viewpoints

The Grant Thornton International Ltd IFRS Team has released the first in what will be a series of publications providing insights on applying IFRSs in challenging situations. Each edition will focus on an area where the Standards have proved difficult to apply or lack guidance.

Issue 1: Related party loans at below-market interest rates – The first IFRS Viewpoint released provides a framework for accounting for loans made by an entity to a related party that are at below-market levels of interest.

Issue 2: Acquisition of investment properties – asset purchase or business combination? – Issue 2 addresses the issue of when to treat the acquisition of investment property as a business combination and when as a simple asset purchase.

Issue 3: Inventory discounts and rebates – Issue 3 addresses how a purchaser accounts for discounts and rebates when buying inventory. Accounting for these discounts and rebates will vary depending on the type of arrangement.

Issue 4: Common control business combinations – Issue 4 addresses how to account for a common control business combination.

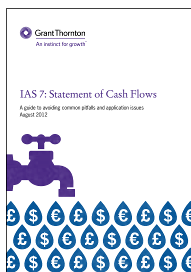
Issue 5: Classification of loans with covenants – Issue 5 considers how the existence of covenants can impact the presentation of debt on the balance sheet.

Issue 6: Reverse acquisition by a listed company – Issue 6 considers how to account for a reverse acquisition by a listed company.

Issue 7: Preparing financial statements when the going concern basis is not appropriate – Issue 7 provides guidance on the issues encountered when an entity determines that it is not appropriate to prepare its financial statements on a going concern basis.

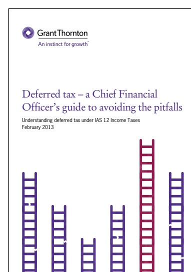
You can access these publications at **www.grantthornton.global/en/insights/viewpoint/ifrs-viewpoints-hub/**.

IAS 7: Statement of Cash flows – a guide to avoiding common pitfalls and application issues



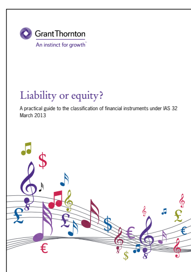
This publication provides a reminder of the requirements of IAS 7 'Statement of Cash Flows' and provides insights on avoiding the common pitfalls and application issues as seen in practice by our IFRS experts. You can access this publication at **www.grantthornton.global/en/insights/articles/cash-flow-statements--avoiding-the-pitfall/**.

Deferred tax: A chief financial officers guide to avoiding the pitfalls



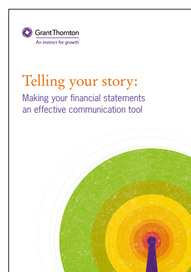
This guide illustrates the approach required by IAS 12 'Income Taxes' for the calculating deferred tax balances. It summarises the approach to calculating deferred tax in order to help CFOs prioritise and identify key issues. It also includes interpretational guidance in certain problematic areas of the calculation. You can access this publication at **www.grantthornton.global/en/insights/articles/deferred-tax--avoiding-the-pitfalls/**.

Liability or equity? A practical guide to the classification of financial instruments under IAS 32



This guide addresses the classification process of IAS 32 'Financial Instruments: Presentation'. This second edition reflects amendments that have been made to IAS 32 since the first edition in 2009, and our latest thinking on some of the more problematic areas of interpretation. You can access this publication at **www.grantthornton.global/en/insights/articles/liability-or-equity/**.

Telling your Story: Making your financial statements an effective communication tool



This publication explains and illustrates four key themes you can use to make your financial statements an effective communication tool. You can access this publication at **www.grantthornton.global/en/insights/articles/telling-your-story/**.

If you would like to discuss any of these publications, please speak to your usual Grant Thornton contact or visit **www.grantthornton.global/locations** to find your local member firm.

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